World News

Congress set to lose seats in Indian assembly

Prime Minister Rajiv Gandhi's Congress Party appeared to be heading for defeat last night in a general election likely to herald a period of political inctallity in Ludia Rayly instability in India. Early trends in the counting suggested that the Congress party would win about 200 of the 525 contested seats, com-pared with the 415 it won in 1984. Page 20; Bitterness and mistrust; Rise of VP Singh, Page 2

Hrawi challenge

Elias Hrawi, Lebanon's new president, said he will use force if necessary to break General Michel Aoun's hold on the Christian enclave. Gen Aoun vowed not to submit

Salvador breaks ties El Salvador suspended diplo-matic and commercial relations with Nicaragua following the discovery of an arms ship-ment of 24 surface to air missiles on a light aircraft which allegedly came from Nicara-

W Bank arrests

gua. Page 3

Israeli troops lifted curfews on more than 14,000 Arabs in the occupied West Bank after making scores of arrests, resi-dents and the army said.

Uruguayans vote

Uruguayans voted in their first free elections for 18 years, with some casting their ballots for one-time guerrillas, political prisoners and others who suffered under more than a decade of repression by the

Poles burn cards Some 200 young Poles protest marched across Warsaw towards the presidential palace and some publicly burnt their army identity cards. Soviet

Yemen unity 'closer' North and South Yemen have narrowed differences on unification and are pressing ahead to reach agreement soon, South Yemen's Minister for Unity Affairs Rashid

Cambodia fighting

Mohammed Thabit said.

Cambodian guerrillas of the Khmer People's National Liberation Front breached govern-ment positions on the outskirts of a strategic north-western town near the Thai border and claimed to hold 70 per cent of the town of Svay Chek.

Roh visits UK

President Roh Tae Woo of South Korea arrives in Britain today for an official visit which will concentrate on trade and business issues, with Korean barriers to British whisky imports certain to be raised.

Yes for Swiss army Swiss voters rejected by a majority of less than 2-1 a draft law to abolish the country's

militia army by the year 2000, in a referendum without precedent worldwide. Page 3 Ukrainians march

More than 150,000 people carrying portraits of Pope John Paul marched through the west Ukrainian city of Lvov demanding the legalisation of the Ukrainian Catholic Church, Page 4

ANC raffy

Two people were killed and several injured in the black homeland of Transkei when tear gas and gunshots were fired at a church rally welcoming four African National Con-

Kvant-2 problems

A Soviet module heading for the orbiting space station Mir developed difficulties with one of its solar batteries, Tass news agency said. The Kvant-2 mod-ule developed a problem after separating from the Proton rocket which launched it yesterday.

US sumo victory

Hawaiian-born sumo wrestler Konishiki became the second foreign wrestler to win a major Japanese tournament when he forced his Japanese opponent out of the ring. Page 3

Business Summary | A million protesters march as Czech premier meets Civic Forum opposition group

Grenfell tries to fend off takeover with bank deal

MORGAN Grenfell, London merchant banking group, is expected to announce today that it has struck a deal with Deutsche Bank, after a weekend of last-ditch negotiations to fend off a likely takeover bid from Banque Indosuez, French bank. Page 6

EUROPEAN Monetary System: Demand for the D-Mark - the dollar fell below DM1.80 for the first time since January, at one stage on Friday - re-newed speculation about an early EMS realignment. The lira was the weakest EMS member, but is allowed a wider cross rate limit than most other currencies and was not under any immediate pressure. The French franc was weak. but did not appear to suffer from suggestions that remaining French currency controls will be scrapped next month.

Currencies, Page 38

EM\$	November	24 19
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D Krone 🖁		
Lira B Franc		
F Franc 8		
Insh Punt		
Guilder 🎇		

000 5%

ECU DIVERGENCE



The chart shows the two con-The chart shows the two con-straints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 24, per cent. The lower chart gives each currency's divergence from the "control divergence from the "central rate" against the European Cur rency Unit (ECU), a basket of European currencies. Calcula-tions based on Monday-Thurs-

anailable. GENERAL Motors has begun supplying engines from South Korea to its operations in West Europe for the first time, in order to alleviate production bottlenecks and lack of capacity at its European engine plants. Page 5

THE OECD has called on the US to carry out radical changes in its tax system to remove impediments to saving.

DEFENCE: The British Govern-ment is making urgent efforts to arrange a bank loan of around £2bn (\$3.15bn) to finance continued Saudi Arabian purchases of military equipment under the UK's huge Al-Yamamah defence contract. Page 20

ENIMONT, Italian public-private chemicals joint venture, looks set for a starring role on the Milan stock exchange because of serious doubts about whether Mr Raul Gar-dini's Montedison ultimately intends to hang on to its 40 per cent stake. Page 25

OIL: Pressure is building in Norway, Western Europe's second largest oil producer after Britain, to abandon a 7.5 per cent curb on crude oil production. Page 20

CAMFIL, a privately owned Swedish filtration company, is to buy Sofiltra-Poelman. industrial filters subsidiary of the leading French glass and pipes group Saint Gobain.

IBCA, London-based rating agency specialising in bank credit analysis, promoted five Japanese banks to its top-rated AAA category bringing to 13 the number of international banks given its highest rating: se banks were previ-

ously absent. Page 25 AUSTRALIA: The Government unveiled details of its first reverse bond tender to retire federal government domestic debt, confirming its continuing withdrawal as a borrower and forcing a significant adjustment on the country's capital markets. Page 25

JAPANESE banks' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting interim figpres. Page 25

Adamec opens direct talks

By John Lloyd in Prague

MR LADISLAV ADAMEC. Czechoslovakia's Prime Minister, yesterday threw aside the grudging response of the country's Communist Party to the demand for political reform and entered into direct negotiations with the opposition

movement, Civic Forum.

As the historic talks got under way up to one million people marched in cities across the country calling for democ-

racy.
The dispirited Communist party's decision-making central committee later began an even-ing crisis session, its second in

ing crisis session, its second in three days.

Mr Adamec, along with two senior party officials, held talks with a nins-member delegation from Civic Forum, headed by Mr Vaclav Havel, the dissident playwright.

Yesterday's talks, which lasted an hour, marked the first occasion on which the country's oxposition movement first occasion on which the country's opposition movement has forced the government into negotiations. Both sides agreed to meet again tomorrow. The nine opposition dele-gates presented the Prime Min-ister with demands which they

say should be met by then. These include the release of all political prisoners - about 30 on the opposition's count - an end to censorship and an indepen-dent inquiry into security force violence against peaceful demonstrators on November 17. The dialogue with the oppo-sition followed the decision of ir Karel Urbanek, the new

refusal of his predecessor, Mr Milos Jakes, to talk with crit-ics. "We have become isolated from the people and the truth," Mr Urbanek said on Saturday, one day after replacing Mr Jakes, who resigned along with the entire Party secretariate, or top leadership, on Friday

or top leadership, on Friday evening.

Later yesterday, Mr Adamec, who quit his Politburo and government posts last Friday but is staying on as a caretaker head of government, told a flag-waving crowd of 400,000 demonstrators on Prague's snow-swept Letna parade ground that the Forum's demands would be relayed to the party central committee. demands would be relayed to the party central committee, which met in a second crisis session last night.

He called for national unity and the participation of all peo-ples of good will but was booed and whistled when he

called for calm and suggested that the two hour strike called for today might be cut to two minutes. Mr Adamec said: :

"There is no time for disagreement and fights for pres-tige...people will judge us by our ability to overcome the

His appearance on the rostrum was followed by one from Mr Alexander Dubcek, the former Communist Party leader deposed by the Warsaw Pact invasion in 1968, who gave his most powerful speech yet. He demanded that the Czechoslovak party-and with it the Soviets, East Germans and Bulgarian party leadership-a-



Czech opposition leader Vaclav Havel (left) shakes hands with Prime Minister Ladislav Adamec at

opposition had called for popu-

lar support for Mr Adamec, on

the start of their talks in Prague yesterday pologise for the invasion. Mr Dubcek, who is now regarded by many as a serious candidate for the Presidency, directly contradicted Mr Adamec's call for calm. Addressing the largely youthful crowd, he said: "Twenty one years ago your fathers and mothers were fighting, and now you are fighting. Thank you for your initiative and your fathers and mothers are with you."

Mr Vaclav Havel the Civic

the grounds that he was wag-ing a battle with party hardli-ners. Nevertheless the Prime Minister was met with cries of "resign" by many in the crowd. Over 700 factories and enter-prises have voted to support an opposition call for the strike. Mr Havel has described the

action as a referendum on the

that a growing movement within the party now demands a complete sweeping away of the leadership: the Prague

Mr Karel Urbanek the new

activists' conference demanded a party congress with freely elected delegates and the power to re-elect a new Central

48 year old party General Sec-

retary, appeared on TV late on Saturday night to apologise for

party corruption and arrogance

and promised deep and radical reform. It was clear however

Czech spirit blooms in the Prague winter

By Judy Dempsey in Prague

THEY CAME from south THEY CAME from south Moravia and north Bohemia, from Kosice and Bratislava to join in this massive reawakening of the Czech spirit which, after 21 years of silence, burst out in full bloom on Letenske Plain, a vast space not far from Hradcany Castle.

While the Communist Party elite moved out of the Castle, once the home of the kings of Bohemia, to hold an emergency central committee ses-

gency central committee session in the Party school, the crowds began to take power into their own hands.
In bitterly cold tempera-

they heard people, who were once muted by the repressive regime, now speak the lan-guage of freedom and truth. On Saturday afternoon, Mr Vaclay Havel, the once shy and modest playwright. received a tumultuous welcome which resounded throughout Prague.

throughout Prague.

"Na Hrade," — to the Castle, they roared.

Mr Alexander Dubcek, who spearheaded the Prague Spring of 1968, who joined the podium on Saturday, received the same compliments. For the people, both men are deemed fit citizens to take over the mantle of the Presidency. Many of the Presnency.

Many of the half a million
people, coloured by a sea of
Czechoslovak red, white and
hlue flags, wound their way
down from Letenske Plain to

verged on Wenceslas Square. By the early hours of yesterday, the square was a verita-ble information centre. Young students, armed with indeper dent newspapers hot off the printing presses, gave them **EASTERN EUROPE** No confidence in Kreuz Excuses run out ets of Katun

Weizelicker 'proposa Page 4 Page 18 away freely to taxi drivers and

anyone walking up this majes-tic boulevard. Even at 2am, the younger generation of oslovaks were eager for more action. with posters, slogans, dates of

meetings, demonstrations, some calling for a general strike, others calling for free elections. But most of them proudly display one name: Obcanske Forum – the Civic

Forum, which, with remarkable speed and organisation, has brought together all the disparate elements of the

its headquarters are located in the basement of the Magic Lantern Theatre, just off Wen-ceslas Square. There, while the cohorts of the Civic Forum spend hours locked away in consultations over their next move and how they should talk to Mr Ladislav Adamec, the Prime Minister, Mr Jan Urban, head of Obruda, a banned organisation for those party members who have been expelled by the country's former party chief, Mr Milos Jakes, remained on the ground

floor of the theatre. It is he who picked the timetable of press conferences. briefings, circulars and information flowing freely as if he

was trained in public rela-

Crowds gather outside to catch the latest news about what the Civic Forum is doing what the CIVIC FORUM is doing.
A television, perched on a window sill, broadcasts regular
bulletins throughout the day.
The people are excited. Students flock in to help type
statements or distribute them.
Everyone has become a politisign or compression. cian or a campaigner.

Just like the staff in many of

the hotels along Wenceslas Square who have the radio and television on all day and who are now taking politics into

The local party branch in the Jolta Hotel has a trite notice displayed on its front door, discouning the party's brutal attack on the young Continued on Page 20

Britain and Vietnam agree cash deal over boat people

By Roger Matthews in Hanoi and John Elllot in Hong Kong

BRITAIN is to pay Vietnam \$620 for each refugee forcibly repatriated from Hong Kong under a confidential agreement signed last Wednesday, accord-

signed last Wednesday, according to Vietnamese officials.

The agreement covers only the first planned flight, which will carry some of the 40,000 Vietnamese currently held in camps in Hong Kong who may not qualify as refugees. The first flight is expected to arrive in Vietnam in mid-December and external hefore Christs. and certainly before Christ-

The sum paid for refugees on further flights would have to be negotiated separately, officials in Hanoi said.

Under the deal Britain has to

pay the full amount five days before each flight, officials said. The final payment would be adjusted according to the number of people who actually

Officials added that their experience of earlier flights carrying refugees who were voluntarily repatriated was that far fewer arrived than had been originally indicated by

Britain.

The first group will probably travel on a 120 seater Boeing 737 chartered by the Hong Kong Government. It would be the start of a mass removal of all but 16,000 of the boat people

The Hong Kong Government is also examining the possibili-ties of chartering larger air-craft, or even ships such as troop carriers and passenger liners with capacities of up to

Refugees returning to Vietnam face a difficult future. Although the Government has this year brought the runaway inflation of 1988 under control and stabilised the exchange rate, it has been at substantial cost. The removal of subsidies from many state enterprises has thrown hundreds of thousands out of work and pushed the unemployment rate up to well over 20 per cent. Many more are underemployed.

Vietnamese officials added that among the people due to be returned were criminals **would now be forced to** suffer the penalty" and single women with children, whose prospects in Vietnam would be very limited. They questioned whether the act of returning Continued on Page 20

Airbus finance chief set to quit

By Paul Betts, Aerospace Correspondent, in London

AIRBUS INDUSTRIE'S top management seems set to be thrown into turmoil with the imminent resignation of Mr Robert Smith, who was recently appointed the group's finance director as part of an overhaul of its management.
The likely resignation coincides with the launch yesterday of the \$480m research and

development programme for Airbus' new A-321 aircraft. The four nation European aircraft manufacturer will fund the programme by raising money on the financial markets for the first time, rather than relying on traditional gov-

ernment support.
Airbus is close to finalising details of the package with a group of banks. The move highlights the consortium's efforts to adopt a more commercial approach.

Airbus officials confirmed

yesterday the formal launch of the new A-821 short to medium range 186 seat aircraft, a stretched derivative of its best selling 150 seat A-320, but declined to comment on the expected resignation of the British finance director. Mr Smith was seconded from British Aerospace's Royal Ordnance defence subsidiary seven months ago to take over the post of Airbus finance director which was specially created as part of a broad overhaul of the consortium's management structure earlier this year.

The financial post, coupled with the streamlining of the consortium's top management, was designed to help cut costs and give Airbus a more business-like and market-orientated management structure. However, Mr Smith appears to have grown increasingly dis-

enchanted over the difficulties of improving the efficiency of the consortium's financial structures and he is understood to have decided to resign. He is not expected to return to He would become the second

BAe executive to leave Airbus in recent weeks. Mr Adam Brown, the former vice-president in charge of strategy at Airbus, left the consortium last month after criticising BAe's attitude towards the four nation aircraft manufacturing

The four partners in the Airbus consortium include Aerospatiale of France (37.9 per cent), Messerschmitt-Bölkowcent), Messerschmitt-Bölkow-Blohm of West Germany (37.9 per cent), BAe (20 per cent) and Casa of Spain (4.2 per cent). The top management strains

at Airbus come at a time when the European consortium is enjoying record orders and is ing to convert its commer cial breakthrough in the world civil aircraft market into financial success.

But the consortium has con-

tinued to be shaken by a series of disputes between its part-ners and the nationalistic rivalries of their respective govern-This has included a major row over West German demands, fiercely opposed by

France, for the transfer of the final assembly of the A-320 from Toulouse in south-west France to Germany. Further clouding the horizon for Airbus is continuing uncer-tainty over the intentions of Mr Jean Pierson, the consor-tium's chief executive and one of the principal architects of the recent commercial suc-

Continued on Page 20

Details, Page 8

es of the group, to seek a

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CONTENTS THE MONDAY INTERVIEW



Mr Li Ka-shing, who runs a Hong Kong ess empire worth over \$3bn, faces the dilemma of whether to move his group's domicile out of the colony, thus keeping International investors but damaging local business confidence

Czechoslovakia: The party of the working class runs out of excuses Managements Offering a tease on Soviet trade Editorial comment: All together, now; India votes for change. political issue trade figures. Survey: Turks and Calcos Islands

Series Assessment Laborator	Business column: Managing matrices in but name	42
Oversess	Letters	5-41
Companies	Monday Page	95-37 24



us: Savings and loan scandal turns into a big Economic viewpoint: Look at sterling, not the ⊫s in a∛i ... 39-41 .. 35-37

Constitution poses problems for President

By K.K Sharma in New Delhi

THE Indian Presidency has rarely been in a position where it has been forced to play a political role. Like the British monarchy on which it is based, the office has mostly ceremonial functions.

This week, however, 78-year-old Mr Ramaswami Venkataraman, the present incumbent, will be called on to make deci-sions that will not only determine which party or combina-tion of parties will form the

next Government, but will also set constitutional precedents.

Mild-mannered, soft-spoken and retiring, Mr Venkatara-man has had a distinguished and non-controversial political career. He is widely expected to act independently this week when he performs his constitu-

tional duties. Mr Venkataraman intervened firmly last week when he asked the Election Commission to inquire into complaints about unfair election practices at Amethi, where Prime Minis-ter Rajiv Gandhi contested the election. Opposition members who met the President with their complaints quoted him as saying that democracy and vio-

lence cannot go together. Mr Venkataraman has been bombarded with advice on how to exercise the Presidential discretion from constitutional experts, politicians and news-paper commentators. India's

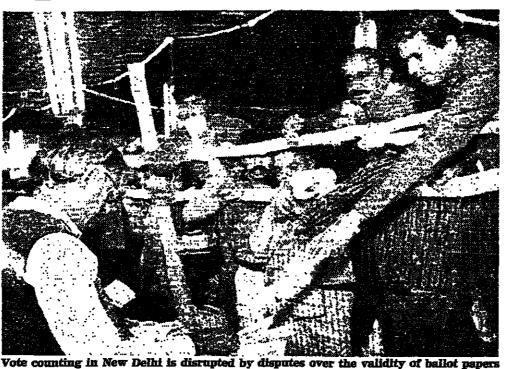
the powers of the President and says merely that he should invite the leader of a party who commands majority support in the Lok Sabha (lower house of Parliament) to form the Government

Mr Venkataraman faces crucial decisions over three issues. The first is, who should be called to form the new Government. Second, whether he should dissolve the previous Lok Sabha whose term lasts till January 14, 1989. Third, what should be done about checking "defections", or mem-bers switching parties after being elected.

Mr Venkataraman has been

urged not to act on the advice of Mr Gandhi, whose ruling Congress Party still has a majority in the existing Lok Sabha. Constitutional experts have reacted with horror to the possibility of Mr Gandhi con-tinuing in power when he has clearly lost his mandate. In deciding on who should form the next Government, the President can call on Mr Gandhi as leader of the largest single party. This is in line with the constitutional practice of let-ting the largest party have first

Alternatively, he can decide to call on the leader of the Jan-ata Dal as the largest group opposing Congress. This would be in keeping with the practice of allowing the Opposition to



form the Government when the ruling party has no chance

of doing so. Taking the realities of the situation into account, the President seems most likely to call the leader of the National Front, Mr V.P. Singh, as the leader best placed to form an administration with a majority in the Lok Sabha. Mr Venka-taraman really has no Indian precedent to guide him except for the events that followed the resignation of Mr Morarji Desai as Prime Minister in 1979 when the Janata combine cracked

The then President, Mr N. Sanjiva Reddy, first called Mr Y.B. Chavan, leader of the (Congress) Opposition to try to form the Government. When

asked Mr Charan Singh, leader of a Janata breakaway group task this week. of a Janata breakaway group supported by the Congress, to be Prime Minister. Mr Charan Singh resigned a few months later when Congress withdrew

its support. The only authoritative advice available to the President is that given by Mr Justice Sarkaria in a report on centre/state relations. Mr Sakaria says, in speaking about selecting a chief minister in a state where there is no clear majority, that the governor should invite a leader of an alliance of parties formed before an election, if the alliance is the largest party.

Mr Venkataraman believed to have been studying all such authorities as well as

Mr Nani Palkhivala, the noted constitutional lawyer, says whatever the President does will "become an established precedent, for good or evil, which would probably be followed when a similar situation arises hereafter".

Mr Palkhivala says: "The President has to ensure that a "hung" Parliament does not result in public morality being hanged. Few people realise that a high moral tone is of the essence in the Indian constitu-tion. The President has to make such a value-based decision that democracy may survive in India beyond our own

Leaders must overcome bitterness and mistrust

some had expected.

the second largest group in the Assembly, did less well than it had expected. Its major reverse was that its regional partners

- the Telugu Desam in Andhra Pradesh and the DMK

in Tamil Nadu – were humili-ated by Congress. This robs the Front of much of its claim to

be a national party with strong

roots in the regions.
Instead, the Front, as it emerges in the Assembly, will largely be composed of the northern-based Janata Dal —

mainly farmers' interests and former Congressmen. The one advantage of this narrower base for Mr V.P. Singh will be

that it should be more cohesive

and easier to control.

But the other setback for the

Front is that, while it has emerged weaker than expected, its two pariners in the campaign to defeat Mr Gandhi have both emerged stronger.

The militant Hindu BJP nexts which has grown in

party, which has grown in strength on the back of Hindu revivalism, will increase its presence in the Parliament

from two to around 60. At the

same time, the Marxists could obtain over 50 seats with Mr Jyotu Basu's CPM party in West Bengal exceeding most

A National Front spokesman

last night, putting the best face on the party's disappointment, called the result a "verdict for coalition government". Party

forecasts.

By David Housego in New Delhi

AS India's opposition leaders last night began to face up to the prospect of forming an administration, it was clear that the difficulties will be as great as any they had imag-

After the violence that marked the polling and the allegations of rigging in Prime Minister Rajiv Gandhi's own constituency of Amethi, it was also clear that cabinet making would take place in an atmosphere of bitterness and mis-

Opposition supporters are likely to take to the streets if they feel that Mr Gandhi's Congress party — or the President — are attempting to deprive them of the right they feel they have won at the ballot box.

Congress, on the basis of early returns, will have about 200 of the 525 seats contested in the new Assembly and will therefore remain the single largest party. But against the combined Opposition of the National Front, the radical Hindu BJP and the Marxists, it is unlikely to be in a position to form a government.

With the balance of power

With the balance of power shifting in the party from the north (where Congress suffered its major reverses) to the south (where it gained more seats than expected), and with uncertainty now over Mr Gandhi's future, the party is in for a traumatic period. But it is still in a more buoyant mood

leaders will meet in the next few days to see how this can be The National Front, the coalition of Opposition parties led by Mr V.P. Singh and now

achieved. But to achieve a majority in the new Assembly, the National Front seems likely to need the support of both the BJP and the Marxists. Mr L.K.Advani, the BJP leader, said last night that his party would not join a government which had Communists in it. which had communists in It.
The Marxists have taken the
same view about the BJP
which they regard as playing a
major role in increasing Hindu-Moslem tensions in north-

ern India.

The prospect is therefore that the National Front will have to form a minority administration, looking for outside support from the BJP to the right and the Marxists to the left. This has always been regarded as the worst recipe for stability.

It will none the less be a situation that will encourage the National Front to seek defections from Congress in an ern India.

defections from Congress in an effort to build a stronger centrist administration. This is what Mr Singh has had in mind when he has talked about a "realignment of Indian politics"

The prospects of a National Front government holding together for long in such cir-cumstances are not good. A similar Janata coalition that came to power in 1977 held together for two years. The unhappy memory of that expe-rience may be a factor for stability this time round.

Popular crusader convinced of emerging the victor

David Housego reports on the rise to prominence of Opposition leader V.P. Singh

WHATEVER doubts others may have had about his leadership qualities, Mr Vishwanath Pratap Singh, the Opposition leader, has long been con-vinced that he would emerge

as Prime Minister. Ten months ago, travelling to Delhi on the same plane as some Congress leaders who began to taunt him about the divisions within the Opposi-tion, Mr Singh suddenly provoked a pin-drop silence by proclaiming in a loud voice:

- seemingly anxious through their acclaim to annoint him as

"You wait and see. I will be the next Prime Minister of India." This election campaign has enhanced his claims to the job. Among the senior Opposition leaders; he is now the only one with credibility as a national leader. Almost everywhere he has travelled in the northern Hindi speaking belt, he has been acclaimed by large crowds - in sharp contrast to

Prime Minister Rajiv Gandhi

Mr Singh's conviction that he will become Prime Minister stems in part from the sense of certainty that goes with his crusading zeal. He sees his mission as restoring the dignity of India's democratic institutions, bringing back honesty and moral values into public life

increasingly marked Hindu-Moslem relations. The simplicity of his own

and, more recently, removing some of the bitterness that has

life-style – travelling by train and car though the campaign, often on his own and carrying a small suitcase – has underlined his attacks on Mr Gandhi's Government over cor-ruption and the Bofors scandal. He has plunged into the crowds and seemed to make himself familiar with their problems, again in contrast to Mr Gandhi who has had to work with the handicap of massive security protection.
As an Opposition leader, Mr

authority. His strength has been to work out what emerged as a successful long term strategy and then to ensure that his partners stuck

As Prime Minister, the risk is that he will continue to be irresolute and indecisive. He will suffer from the weakness that he will have few men that he can call his own in the new Parliament. He believes strongly in advancing by con-sensus and is therefore likely to replace Mr Gandhi's highly personal Government with a more cabinet system of deci-

sion making. Mr Singh would bring to the job considerable experience of government. He was Finance Minister under Mr Gandhi where he was responsible for the initial measures of liberalisation and for much greater further loan from the IMF.

\$50 of a25 ######## | 50

transparency in preparing the Budget.

In terms of economic management, he seems likely to give priority to curbing budget and balance of payments defi-cits that he sees as the cause of inflation and India's worsening domestic and international debt. He will need to take hard decisions rapidly because India's diminishing foreign exchange reserves are increasingly forcing it to look to a

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OVERSEAS NEWS

Cheney set to brief Nato on proposed US defence cuts

By David White, Defence Correspondent

MR DICK CHENEY, the US Desence Secretary, is expected this week to give Nato allies further indications of the extent and nature of the curs being contemplated in the Pentagon's next annual budget, and their implications for Nato

operations in Europe.
Nato defence ministers will at the same time seek to pre-pare the ground for the hard task of allocating the arms reductions being negotiated at the Conventional Forces in Europe (CFE) talks in Visnnai Ministers from European allies will hold separate discus-sions in Brussels today ahead

of tomorrow's meeting of the alliance's Defence Planning Committee, including the US and Canada. The meeting has to undertake an annual force mances over the last year and committing each country to set to anticipate arms control by conting their commitments. force levels for 1990.

The problem it now has to address is how to square this with the cuts in equipment and in US stationed manpower forseen in the CFE proposals. British officials said they

expected a CFE agreement to be signed next autumn. But there was still too much uncer-tainty on the size of alliancewide cuts to be able to foresee the implications for individual

The officials made clear that the UK would resist discussion of British force levels in West Germany, which are not affected by Nato's current CFE

At the same time, Mr Tom King, UK Defence Secretary, will urge European allies not

Britain believes the US can be seen as an exceptional case because of the extent to which it built up its military in the

early 1980s. The ministers will discuss a new Nato report on the vexed issue of how Nato burdens are shared between the US and its partners. They are expected to seek clarification from Mr Cheney on how the US contribution will be affected by the progressive spending cuts foreshadowed by him a week

saving.
The Paris-based think tank, They are also due to receive an interim report from Gen John Galvin, Nato's supreme commander in Europe, on ways of lessening the nuisance caused by military training, especially in West Germany. which is owned by the world's

Norway may lift oil output curb

By Karen Fossii in Oslo

THE Norwegian Government is coming under growing pres-sure to abandon its 7.5 per cent curb on crude oil production which was imposed in Februwith was imposed in reputary 1987 in an effort to help the Organisation for 'Petroleum Exporting Countries stabilise world oil prices at \$18 a barrel. Norway is Western Europe's second largest oil producer

The 7.5 per cent production restraint removes about 120,000 barrels a day from world crude oil markets. Norway currently produces about 1.55m b/d. This could rise to 1.7m b/d next year

if the curb were removed.
The former minority Labour
Government, led by Mrs Gro
Harlem Brundtland, implemented the oil production cut after a steep fall in world crude oil prices to below \$10 a barrel

By Steven Butler in Vienna

OIL MINISTERS from the

Organisation of Petroleum Exporting Countries meeting

in Vienna yesterday failed to make apparent progress toward reaching a production agreement for the coming year.

Delegates said there was

resolve to reach a new agreement that would stop "rampant cheating" on quotas. But there had yet to emerge a basisfor serious negotiations. Fears exist that oil prices could slump in the new year unless Opec output is reduced significantly from its present 23.5m

cantly from its present 23.5m barrels a day. Foremost among obstacles to

By William Dulforce in Geneva

yesterday to keep its army, even though more than 1m of

its population voted for its abo lition in a referendum that

attracted an unusually high

turnout of more than two-thirds of the electorate.

The score, 35.6 per cent in favour of dismantling the mili-

tia army, is a remarkable tri-

umph for Young Socialists, who raised the call for a refer-

endum three years ago.

Their initiative was then dismissed as crazy in a country

where armed neutrality has heen the cornerstone of foreign

policy for 170 years and where almost all adult males up to 55 keep a uniform and a weapon. The proposal that the sen-tence "Switzerland has no

Opec ministers fail to

reach production accord

the United Arab Emirates to be fall in any quota reallocation.

Swiss vote to keep army

SWITZERLAND decided army" be written into the fed-

in 1986. The production restraint policy is reviewed biannually and officals main-

tain that their policy on the issue is "flexible."

In 1986 the Government believed that by supporting the cartel oil prices would improve and help Norway's oil-depen-dent economy, which suffered heavily from the fall in price of

Oil prices have recovered to above \$18 a barrel but Norway's economy is still strug-

Unemployment is running at its highest level since the Second World War and state coffers could use the additional revenue arising from higher oil production.

In addition, Statoil, the Norwegian state oil company, has experienced financial difficul-

allocated a production quota of

1.9m b/d, against its current quota of just over 1m b/d. This

was considered out of the ques-tion, given the expected size of the oil market in the new year and demands by other Opec members for increased quotas.

According to one proposal which appears to have broad backing from Gulf producers, the UAS and Knwait would be

given quotas of 1.5m each, and Opec's production ceiling would rise 2m b/d to 22.5m b/d.

Some Opec members are hav-ing difficulty accepting Saudi Arabia's insistence that its

24.46 per cent share of Opec's

eral constitution was duly rejected by 64 per cent of those

voting. But Mr Kaspar Villiger, the Defence Minister, had

warned that a vote of one third

in favour of the proposal would weaken Switzerland's interna-

Greatest support for the pro-

posal appears to have come from young voters – a factor which indicates growing objec-

tions among those who have just started their military ser-vice. Some older Swiss voted

for the proposal, not because they want to do away with the

army but to protest against heavy spending on sophisti-cated new weapons.

tional standing.

ties for the last three years. Now that oil prices have improved, it is planning to step up investment. Improvements in the oil price have also contributed to Statoil's earnings

Analysts believe that the world crude oil market is strong enough to withstand continued production over Opec's self-imposed quotas. Prices have remained stable and above \$18 b/d for most of

Norway is expected to decide its oil production restraint pol-icy before Christmas and officials believe that the environ-ment this year has changed significantly enough for new thinking about the cut to pre

Japan takes Hawaiian to its heart

By lan Rodger in Tokyo

IN comparison with Mitsubish Estate's purchase of New York's Rockefeller Center last month, the victory yesterday by an American in Japan's final sumo tournament of the year probably does not rank as ntons event.

But at a time when Ameri-cans and Japanese seem to be able to find more reasons for distrusting and disliking each other, it provided an opportu-nity for both sides to show a little symbolic warmth for each other. And both rose to

The victor, a 222kg (35 stone) Hawaiian by the name of Salevaa Atisanoe, burst into tears within seconds after he had thrust his final opponent out of the ring yesterday to become only the second for-eigner in history, and the first in 17 years, to win a top sumo

Mr Atisance, who is 25, tried desperately to conceal his emo-tions by wiping his face repeatedly with a cloth, but it took him several minutes to compose himself. "This has been my dream, I'm really stunned," he whispered later

in fluent Japanese. Japanese sumo fans, who in the past have not exactly weled foreign athletes into their national game, were touched. They were profuse in their applause when Mr Atis-ance won, when he rose to colenter the endless collection of cups, trophies and scrolls which goes to the winner and when he led the traditional tournament closing parade

The victory was especially sweet for Mr Atisanoe, known as Konishiki in the ring. He arrived in Japan seven years ago and rose very quickly through the ranks of profes-sional sumo to become the first foreigner to reach the sec-ond highest level, called ozeki,

two years ago.
Then, he faltered - suffermen, he natered surjecting a succession of injuries and aliments and performing listlessly in the ring. Cynics wondered if, as on a couple of occasions in the past, the Japanese sumo establishment had found a way to prevent a for-eigner from getting too far. Others said he had simply

If he had not won a majority of bouts in the current tourns ment he would have lost his ozeki status, but from the opening day two weeks ago it was clear that he had recovered his old form, often jumping up and down like a man with a third of his weight

while going through the ritual preparations for his bouts. Now he faces the prospect, i he wins another tournament of being the first foreigner to become a yokozuna (grand

How the Japanese would react to that remains to be seen. But the warm reception given Konishiki's victory yes-terday is not the only sign that they are shedding their feelings about foreign athletes.

OECD REVIEW CALLS FOR TAX OVERHAUL

US urged to remove obstacles to savings

By Peter Norman, Economics Correspondent

THE Organisation for monetary policy needed to Economic Co-operation and combat inflation could induce Development has called on the US to carry out radical changes in its tax system to remove impediments to saving. In its first review of the US

economy since May 1988, the OS economy since May 1988, the OECD said the US should mount a "two-pronged attack" in the fiscal policy area.

It said the US needed to cut its budget deficit by tightening expenditure control procedures. The US should also consider structural tax measures. sider structural tax measures to improve the allocation of resources and raise private

24 leading industrial nations, said it foresaw growth in the US continuing at about 2.5 per cent in the second half of this year and in 1990, with inflation stabilising at around 5 per cent and only a small rise in unem-

and only a small rise in them-ployment from its current rate of around 5.2 per cent.

But it warned that there were risks "on both sides of such a prospect". The OECD said that investor confidence could decline as the economy slowed in which case the tight

On the other hand, there could be a spontaneous recovery in consumer spending that would exacerbate inflationary pressures. The OECD said US monetary policy must remain tight to contain inflation and reduce further the US current account deficit. It projects a decline in the deficit to \$109br in 1990 from \$116bn in 1989 and

\$126.6bn last year. However, it said exclusive reliance on monetary policy could create stresses in the US financial system because of the presence of highly leveraged companies. It also expressed concern that high levels of cor-porate debt might deepen any slowdown in the economy resulting from tight monetary policy. In the medium term, the sole use of monetary policy to contain inflation could deter capital spending and impede exports, the OECD believes.

The OECD also fears that in the absence of fiscal action the US could remain over-dependent on foreign saving with possible negative consequences on interest rates and interestsensitive spending.

Although the report said the accumulation of foreign debt

may be sustainable because of demand for dollar assets in for-eign-held investment portfolios, financing the current account and budget deficits may at times be difficult and so constitute a potential source of exchange rate and interest

The OECD criticised the present Gramm-Rudman-Holings budget deficit reduction law. It said it makes it too easy to produce budget estimates that meet the law's targets. However, there is no means to ensure that actual deficits stay near the target during the fis-The report said opportunities to improve the structure of tax-

ation in the US remain unex-ploited, singling out tax relief on owner-occupied housing. It called for a better balance between direct and indirect taxation; the integration of the personal and corporate income tax systems and an increase in gasoline taxes, which would also benefit the environment. In an oblique manner, the OECD criticised the US for

OECD FORECAST FOR THE US ECONOMY (% changes, seasonally adjusted at annual rates) Private consumption Government consumption Private fixed investment non residentia Exports:goods & services

resorting earlier this year to unilateral action against Japan India and Brazil when it specified that they had acted as unfair traders under the "Super 301" provisions of the 1988 omnibus trade act. The report said the US should adhere to the dispute proce-dures of the General Agree-ment on Tariffs and Trade when it objected to the trade and industrial practices of foreign countries. In a review of US industrial

Current account (Sbn)

Consumer prices industrial production

Unemployment rate

performance, the OECD said a number of structural impedi-ments stood in the way of bet-

ter productivity. These included low savings and the associated high cost of capital and insufficient investment in general education, skill devel-opment and commercial research and development.
The OECD noted the current

debate in the US over whether America should emulate Japanese methods to improve its industrial performance. But it warned the US against any idea of targeting individual industries for special develop-ment as a "risky selective approach to industrial adjust-ment".

El Salvador suspends relations with Nicaragua

By Tim Coone in El Salvador

EL SALVADOR yesterday suspended diplomatic and com-mercial relations with Nicaragua following the discovery of an arms shipment of 24 surface-to-air missiles on a light aircraft which allegedly

came from Nicaragua. President Alfredo Cristiani, the Salvadorean president, said: "This is a dangerous escalation of the conflict," and he has called for the next meeting of the Central American presidents to be moved from Nicara-

gua. "El Salvador will not go at the invitation of Nicaragua,"

El Salvador is also calling for emergency meetings of the UN General Assembly and the Organisation of American

The crash of the light air-craft has provided the first firm evidence that SAMs may now be in the hands of the guerrillas and according to a senior El Salvadorian army officer "this could change the

The missiles use infrared tracking devices to lock on to the exhaust emissions of aircraft of helicopters. The El Salvadorian air force is not thought to have effective

counter-measures equipment fitted to its aircraft. The first phase of a nation-wide guerrilla offensive launched 15 days ago, was eventually beaten back with the extensive use by the armed

forces of aircraft and helicopter

gunships. They are widely thought to be regrouping and preparing for another, possibly even heavier, offensive. The arrival on the scene of SAM missiles for the first time

in the 10-year-old civil war, would confirm the view that the guerrillas are aiming to seize and hold an important piece of territory in El Salva-

The eastern part of the country, focusing on the city of San Miguel, is considered a highly

The aircraft carrying the 24 missiles was a twin-engined Cessna with its registration painted out. Twenty three of the missiles were Soviet-made SAM-7s, of which Nicaragua is thought to have several hundred, while the other was a US-made "Red-Eye." The US Government has supplied such missiles to the Nicaraguan Contras, a number of which have been captured by the Nic-



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settle 'bid rigging' cases By lan Rodger in Tokyo TWO highly publicised cases of

Japanese construction firms

unfair trading practices by Jap-anese companies, which have caused considerable embarrassment to the Japanese authorities, have been settled

with unusual speed.

Last week, a group of Japanese construction companies agreed to pay the US Government Y4.7bn (\$4.1m) following accusations that the group had rigged bids for carrying out Y20bn worth of work on various projects at a US naval sta-tion south of Tokyo between 1983 and 1988.

In May, Japan's fair trade commission, following an investigation, imposed penal-ties on 70 companies for agreeing in advance on how to bid for the contracts. The US then claimed Y5bn from 140 companies allegedly involved in the bid rigging and threatened to take them to court.

Bid rigging in the Japanese construction industry is one of the main issues raised by the US in the Structural Impediments Initiative (SII) talks aimed at removing structural barriers to balanced trade in

both the US and Japan. Under a memorandum Dec 20. The remaining 41 firms did not join the agreement.

making absurdly low hids for computer system contracts. The reprimand follows the revhad won a tender for a com-

with a Y1 bid. revealed that NEC had won a contract in another public sector competition recently with a Y1 bid, and five other similar cases in the past two years

The cases had aroused inter-national interest because they showed that huge Japanese electronic companies were prepared to suffer very large build market share. The Com-mission said the practice was prejudicial to small competi-

signed by 99 Japanese construction firms and the US gov-ernment, companies doing business or having assets in the US will pay the Y4.7bn by

Meanwhile, the Fair Trade Commission has reprimended Fujitsu and NEC, two leading computer manufacturers, for elation last month that Fujitsu puter system to control Hiroshima's municipal waterworks

Subsequent investigations

were discovered. losses in the short term to tors in the industry.

The party of the working class runs out of excuses

Czechoslovakia's Communist Party is falling apart fast as the world of pre-post-communism arrives, reports John Lloyd

■ HE television shows a man standing on a balcony above a fac-tory yard in which a few hundred workers await his words. The camera is in close showing his eyes flickering, his head nervously jerking to and

Finally, he lunges towards the microphone, and begins an address: he calls on the workers to be with the Communist Party as it is with them; he es changes in its leader ship (to ironic applause); and he berates the students who are leading the strikes and the tumultuous demonstrations. Then he says: "I don't care what kind of country it is, Third World, capitalist or socialist - it doesn't allow 15-year-old children to tell it what

The camera swings down into the well of the yard. There is scattered clapping. Then one man begins to chant "We're not children!" In seconds it seems the whole yard has got "We're not children, we're not children!"

The camera swings up again to the speaker. It seems the lens is almost touching his sweaty face. He makes another sweaty late: he makes another stab at the microphone. "Of course I didn't mean you were 15-year-olds." Too late: the chanting has switched to "Resign! Resign! Resign!" He backs off the microphone: the camera shutter closes.

This three-minute scene has become the best-known piece of television in Prague. It is a piece of symbolism which in itself unites and extends the opposition. The Humiliation of Miroslav Stepan, Communist Party First Secretary of Pra-gue, by the workers of the CKD engineering plant is the TV equivalent of the medieval religious painting which portrays a transcendence...or a martyr, The Humiliation carried a clutch of lessons. The most basic and shocking of them

reports of events

By Quentin Peel in Moscow

THE speed of events in Eastern servative Communist states of many, has for once left Soviet

The only consistent line from the Soviet authorities has been to stress that their Socialist allies in Eastern Europe must sort out their own don tic solutions, without any guidance from Moscow.

Apart from that, Soviet offi-cials continue to back reform against stagnation and dialogue against confrontation. Given Mr Mikhail Gorbachev's own problems in sorting out the Soviet economy and con-trolling an increasingly anar-chic democratisation, he clearly has no clearer prescrip-

However, the most signifi-cant change for the Soviet public has been that the absence of a clear party line has resulted not in a news blackout, but rather in relatively straight, if subdued, reporting of the tunultuous events in Prague

and East Berlin. Television, above all, has given a clear glimpse of the huge demonstrations in both countries, although the printed press has continued to give the changes only modest promi-

On Saturday, only one national newspaper — the trade union publication, Trud - actually published the events in Prague on the front page, alongside another story from East Berlin.

REUNIFICATION

Weizsäcker proposed to Poll of no confidence in Krenz Polish Premier's visit lead unified Germany

By David Marsh in Bonn

THE CHAIRMAN of one of East Germany's new opposition parties has suggested making Mr Richard von Weizsacker, the West German president, head of state of a united Germany.
In a sign of how the question

of Germany unity is coming to the fore in both East and West Germany, Mr Wolfgang Schnur, head of the East German Democratic Awakening Party, said a combined head of state would be a "helpful" step-ping stone towards "unity of

Mr Schnur, who has been visiting the Federal Republic for talks with top politicians here, said Mr von Weizsäcker would be acceptable to East Germans because of the way he had carried out his five years as West German presi-dent. "I have absolutely no doubt that Richard von Weizsäcker would also be accept-able for us as head of state," he told the Sunday newspaper Bild am Sonntag.
The Socialist Unity Party

(SED), the East German com-munist party, says German

ing class no longer has an For the past week, its leader

was that the party of the work-

ship has grasped at the hope that the daily manifestations really were confined to the intelligentsia, young and old, and that the introverted torpur which had settled on Czech society for the past two decades would reassert itself on the firm rock of proletarian No such luck. All over the

weekend came news that enterprise after enterprise had pledged to join the two-hour strike planned for mid-day today. Workers, footballers and pop stars stand beside the intellectuals on the freezing podia at demonstrations. Ten thousand workers from CKD alone were in Wenceslas Square on Friday and more in Letenske Field on Saturday and yesterday. Bohemian miners, chemical workers from Bratislava, Skoda engineers, Prague students, the jealousles contempts among them

and contempts among them are dissolving, it seems, for as long as it takes to slough off their ruling class.

The party is falling apart very fast. The Prague Communists held a conference yesterday and Saturday and they, too, gave Mr Stepan a hard time, demanding his resigna-tion (it came later yesterday) and in some cases, that of the entire new party praesidium, only a day old: demanding, too, a special party congress whose delegates would be freely chosen from the base so that a new central committee could

Mr Ladislav Urbanek, the new party boss who follows Poland's Mieczyslaw Rakowski, Hungary's Resző Nyers and East Germany's Egon Krenz into the nightmare world of pre-post-communism, appeared

now familiar ashes on his head: "We were far from the

The resignation of Milos

Jakes, the Czechoslovak Communist Party leader, was disposed of in just one paragraph with the attention focused on the new party leaders in.

However, the television coverage, and the Soviet correspondents' reports from Pra-

gue, have recorded the huge

demonstrations and wide-spread workers' support for

today's planned strike.
Soviet film of the demonstra-

tions appears to have been

bought almost entirely from Western television stations, in

contrast to its own footage which was broadcast from East Berlin the week before. One suspicion of Moscow observers is that Soviet TV crews have

been too nervous to confront the Czech demonstrators, given the memories of the Soviet

invasion in 1968.

The apparent sympathy for the demonstrators has been

shown in such establishment

organs as Pravda – in a des

patch from its own correspon-dent - Izvestia, the Govern-

ment newspaper, and even the relatively conservative Soviet-skaya Rossiya.

The official Soviet news

agency, Tass, reported that last

Thursday's mass rally in Wen-

ceslas Square numbered 500,000 - well in excess of

Western estimates. Soviet-skaya Rossiya admitted that

the Czech Government's previous attempts at reform had been "discredited", and referred to "historic events"

taking place in Wenceslas

unity is not on the agenda at the moment, as it would dam-age stability in Europe. How-

ever, Mr Egon Krenz, the East

German leader, told the Finan-

cial Times on Friday that a confederation would be an

eventual possibility as part of a future "Common European

The East German Christian

Democratic Union has already come out in favour of a future

confederation between the two states. The fledgling East Ger-

man Social Democratic Party.

one of the previously banned opposition groupings which will be contesting free elec-

tions in East Germany, has

also given support to the idea.

Meanwhile, in the Federal Republic, bickering between the main parties over reunification continued at the weekend. Mr Oskar Lafontaine, the maverick vice-chairman of the West German Social Demograts has attracted the matter.

crats, has attracted the wrath of the right by declaring that West Germany could no longer stick to the concept of a

single citizenship for all Ger-

takes... we allowed corrup-tion, lack of ability and idle-ness in our ranks." This act, 'Doing The Gorbachev", has never found an imitator capa-ble of the style of the original. Presented everywhere as a strategy for renewal, it is actually the death rattle of the one-party state. he communists are,

like the East Germans, moving swiftly.
Friday night and
early Saturday morning saw the replacement of Mr Miros Jakes, who replaced Mr Gustav Husak (now state president) as party leader 23 months ago, with Mr Karel Urbanek, a 48year-old party functionary who has been on the Federal Central Committee for only three years. Other hard liners like Mr Jan Fojetk, the ideology chief, also left: but this was no praesidium of reformers, not with Mr Stepan or Mr Miros Zabadio, the trade union boss,

Already, the Communist Party has - ambiguously - talked of free elections, a new constitution and new laws on embly and the press. Article 4 of the present constitution, which enshrines the party leadership role, is now "likely"

The party has grabbed at the chance of round-table talks: Mr Urbanek has promised governnt posts for non-party and other-party people, and an investigation has been mounted into the beatings which the special internal ministry forces meted out to the demonstrators on November Half a dozen political prisoners - including Mr Rudolf Zeman, Mr Jiri Ruml, Mr Peter zeman, Mr Jiri Rumi, Mr Peter Uhl, and Mr Jan Cernogursky — were released at the week-end; some 20 more remain inside and their release is on the top of the Civic Forum's accorda

But the fossilised Central Committee, inheritor of 21 years of acting as Soviet place-

men, 21 years of screening out for themselves," he cried yesall reform and reformers, 21 years of filling every official post from village school head-master to prime minister with communists only, can barely

Only the gathering rebellion nong over 1m members and the continuing occupation of the streets (at six degrees below) forces them to lurch from concession to re-arrangement. Last night, both the Slovak and the Federal Central Committees were again in session, cutting throats, and hoping that the bodies they will throw out to the public will get them indoors again.
The opposition remains more

or less united, still on the high curve of the popular wave. Mr Vaclav Havel led the talks with the government yesterday; his hoarse but increasingly selfmest response at the demon-strations. "After 40 years of totalitarianism, the people have started to think and act

He has rejected all talk of future personal power. But even if he does not return to a writer's solitude, he will emain the moral centre of the drive to democracy.

Mr Alexander Dubcek, who
has thrown his lot in with the initial Civic Forum, would want power he is being spoken of among the widening circles of his supporters as a future president and it may be in his grasp. His speech yesterday, following Prime Minister Lad-

islay Adamer's, was the strongest since he first appeared on Friday: demanding apologies for the 1968 invasion from the Soviet; East German and Bul-garian leaderships — as well as from the Czech party — and scorning the changes in the leadership.

radually emerging are the bones of the society and the econ-omy which this vast people's movement may be responsible for ushering in. It will be pluralistic; and it may well have a market economy.

Dr Valtr Komarek, director of the Prognostics Institute, is only one of a number of economists now working on plans which the Civic Forum will make its own and which Mr Adamec is likely to welcome. Another group, under the lead-ership of Professor Vladimir Karlec of the Czech Academy of Sciences, is about to issue a document for the Civic Forum setting out a plan for the transformation of the rigid economy to a market system, opening out to both domestic entrepreneurs and foreign investment. Absent — and significantly absent — has been any discussion of the Soviet Union. It is simply accepted, now, that there will be no interference. Poland and Hungary had to worry about how far to go. The Czech movement sees the

Czech party as its only oppo-

nent: its enemy is within. What a coming of age! Prague has woken, after 21 years, to roaring festivals of improvisation, free speech and mass rejoicing, it is no cliche to say that the people are both engaged in the political events and polite, even affectionate toward each other. The wit is like lightning:

when a Hungarian indepen-dent trade unionist apologised yesterday to the demonstration for his poor Czech, an instant chant came back: "Not as bad as Jakes". More than any-where else in Eastern Europe, this movement has been led by men and women, mainly young, whose youthful idealism and energy are omnipres-ent and so far omnipotent. Jaroslav Hutka, an exiled singer who crossed back from West Germany at the weekend sang to the Letenske Field rally yesterday: "Peace and truth are the highest thing in life". A hig, hairy man, he looked himself like a homage

to 1968, right down to the gen-tie beam on his hairy face.

Opposite Mr Adamec at the first round of the talks yesterday were a priest, a play-wright, a pop singer, an actor and a miner. All of this makes some of the powers that still be apoplectic: General Vladimir Tibor, an army commander in tern Slovakia, exploded on TV yesterday that it is an affront to the dignity of Czechoslovakia that it should be represented by a long-haired man with a guitar". Yet soon after, a Lieutenant Pinc stepped up to the same microphone before the half million-or-more people and confessed he was a manner the very internal ministry special group which had clubbed demonstrators nine days ago forgiveness. The confessed he was a member of and begged forgiveness. "The Civic Forum has held out its

accept it. We are deeply sorry that our leaders put us against

Ukrainians call for legalisation of church

NEWS IN BRIEF

MORE than 150,000 people carrying portraits of Pope John Paul marched through the west Ukrainian city of Lvov yesterdaydemanding the legalisation of the Ukrainian Catholic Church, Reuter reports from Moscow.

The protest took place only days before President Mikhail Gorbachev goes to Rome, where he will meet the Pope. Ukrainian Catholics hope the meeting will result in rec-ognition of their church, hanognition of their church, han-ned by Josef Stalin in 1946.
"It was just a sea of people."
Lyoy human rights activist
Rogdan Gorin said.
The march followed a twoand a half-hour outdoor prayer

san-a-nar-nair outmoor prayer service organised by the underground church, some of whose members spent years in prison for their beliefs, Dassault deal

with Estonia

Estonia-based Sherbank, the Soviet Union's largest savings and credit bank, is to buy and credit bank, is to day
Ffribn (£103m) of computers,
banking software and training
from Electronique Sarge Dessault (£SD), the electronics
arm of the French aircraft
maker, William Dawkins
writes in Paris.
The contract is to computerise Sherbank's bead office in

se Sherbank's head office in Tartu, Estonia's second city, and eight regional offices in Estonia, Lithuania and Latvia. ESD will also instal electronic payments terminals in the largest businesses in Tartu. This is the latest Soviet step towards acquiring Western banking expertise after the signature last May of a joint venture in Moscow, among three Soviet and five European

hanks.

They include France's Crédit
Lyonnais, which is also head
of a French consortium, set up
in July, of which RSD is a
member, to encourage joint
ventures in the Soviet Union.
While the Soviet partners were
keen at the time to set up a
laint wenture in simple whole. sale banking, observers said they were also eager to acquire Western banking tech-nology.

Leipzig steam plant order

East Germany amounced at the weekend a DM225m (£79m) order for two West German companies to build a steam generation plant for moderni-sing the Buna chemical works

sing the Buna chemical works near Leipzig, David Marsh reports from Bonn.

The order, for the plant construction company's Lenties and Lurgi — a subsidiary of metal concern Metalligeself-schaft — is the centrepiece of a new power station being built to improve production and environmental protection at the Buna-works.

the Buna-works.

The plant will involve modern coal-firing technology to dampen pollution through sulphur dioxide, nitrogen oxides and dust. The contract is a landmark in East-West German co-coeration in improve man co-operation to improve ecology in the southern part of East Germany, suffering under the heavy use of polluting lig-

ing with socialist content," he said. "We are for real democracy. A law-based state needs to have principles." It required a "sharp division" between the executive and the legislature, and an independent court system.

In this the role of the party should no longer be executive or administrative, but the "ideological, moral and political vanguard of the people".

He admitted that the party had falled to restructure itself enough. "Unfortunately, so far perestroika in the party is slower than in society as a whole, Optimism on co-operation

Mr Helmut Haussmann, the West German Economics Minister, said yesterday that the chances for economic co-opera-tion between the two Ger-

tion between the two Germanies were much better than generally assumed, even without big changes in the East German political and economic system, Andrew Fisher reports from Frankfurt.

After talking with West German industrialists, he said in Bonn that changes in East Germany's investment laws would release potential economic benefits of a size so far underestimated in East Berlin.

West German industrialists and bankers wanted, above all, an agreement under which an agreement under which investments would be safeguarded. This would allow joint ventures, not at present allowed in East Germany, to be concluded.

Bulgarian secret

Czech Premier Ladislav Adamec at a meeting of opponents of the government in Prague yesterday **● CZECHOSLOVAKIA'S PRIME MINISTER**

Papers give subdued Adamec finds a cautious home among reformers

By Judy Dempsey and John Lloyd in Prague

MR LADISLAV ADAMEC, the Prime Minister of Czechoslovakia who refused to join the new polithuro on Friday night, saying that he could not support such a team, has been practically dis-owned by the party leadership. But he is now slowly finding a new home

among the Civic Forum. the leadership of the Civic Forum is composed of intellectuals and writers such as Mr Vaclav Havel, Mr Adamec's background is very much anchored in

the party and government.

Born in 1926 in south Moravia, once the heart of Czech industry, Mr Adamec made his way slowly up through the SOVIET SOCIALISM

party ranks. He seems to have kept his head fairly low during the Prague Spring movement, for which he was rewarded in 1970 by being appointed deputy prime minister of the Czech Lands region, a post he held for 18 years. In 1987, he was elected prime minister of the region and the following Czechoslovakia. His critics at the time said he neither had the competence nor the power base to push through any of the much-needed economic reforms which his predecessor, Mr Lubomir Strougal, has unsuccessfully tried to do. However, over the past year Mr Adamec had made it known at several

party meetings that no economic reform could drag the country out of its appalling state unless political reforms were introduced. He is on a knife edge: when he called, in the speech he was unexpectedly invited to make by Civic Forum at yes-terday's demonstration, for a period of

might be two minutes rather than two hours he lost his andience and support turned to cries of "Resign". He is on tight probation. "He is the best they have," says Father Vaclav Maly, the young priest who has emerged as the Civic Forum's front man and an admiring associate of Vaciay Havel.

"He can play a role in the transition."
His supporters say that he tried to resign as early as June, an offer which was repeated late last month. But even then, Mr Adamec was reluc-

tant even politely to refer to the opposi-tion in interviews.

But Mr Adamec, catapulted into the now the only Czechoslovak politician who is willing to talk to the Civic Forum, will probably be one of the few survivors of the present party and government leadership.

As one of the Civic Forum spokesmen

has said, Mr Adamec "is the only politi-cian who has lost his arrogance".

serious theoretical error if we tried to

impose ready-made schemes upon society, or to force contemporary realities

into a Procrustean bed.

This was the characteristic feature of Stalinism, with which we have parted ways.

great values of human civilisation which we follow, and which we are fill-ing with socialist content," he said "We

Democracy and freedom are the

Gorbachev backs continuing monopoly for party

PRESIDENT Mikhail Gorbachev yesterday issued a resounding call for the Communist Party to maintain its monopoly rule in a pluralistic Soviet society, as part of an attempt to present a new vision of a future democratic

Yet he did not rule out an eventual move away from a one-party state, promising that the party itself would-work to promote a pluralism of opinions, and still greater glasnost - openness - "in the interests of democracy". His refusal to countenance any early move to a multi-party system of democ-racy came as the leaders of the most racy came as the leaders of the most important opposition group within the country's new parliament voted to demand a debate on Article Six of the Soviet constitution — which enshrines the "leading role" of the Communist Party — next month.

The Inter-regional group, headed by prominent radicals such as Mr Boris Yeltsin, Dr Andrei Sakharov, Professor Yord Afanassar and Dr Gayrill Proces.

Yuri Afanasyev and Dr Gavriil Popov, **EAST GERMAN PARTY**

By Lesile Colitt in Berlin

THE East German Socialist

Unity (Communist) Party has suffered a stuming setback in an official poll showing that only 19 per cent of adults would vote for the party if

An overwhelming 67 per cent majority of the East Ger-

mans polled said they approved of the new opposi-tion groups fielding candidates in forthcoming elections. Mr

legon Krenz, the new party leader, was backed by a mere 9.6 per cent of citizens polled by the Central Committee of the Socialist Unity Party Carty Part his chief steel Mark 1981.

(SED). But his chief rival, Mr

Hans Modrow, the reform-minded Prime Minister, got

The opinion poll, published

in the party newspaper Neues Deutschland, was bound to influence delegates now being elected to the emergency party congress in mid-December.

The congress will elect a new

central committee and could oust Mr Krenz if he is seen to

a liability for the badly-weak-

41.9 per cent.

elections were held now.

and supported by 400 to 500 of the 2,250 members of the Congress of People's Deputies, is reflecting a spreading demand for the role of the Communist Party to be questioned. It has been one of the demands of the striking coal mingres of Vorbutta, in the April of Chale as ers of Vorkuta, in the Arctic Circle, as well as of radical demonstrators marching through Moscow in an alternative Revolution Day demonstration on

Mr Gorbachev's alternative view, published as a vision of the future of socialism over the first 2½ pages of Pravda, the leading Communist Party newspaper, yesterday, coincides with

debate in the country.

Yet Mr Gorbachev still refused to

newspaper, yesterday, coincides with growing signs of panic within the ranks of the ruling party.

The Soviet leader's statement of faith can therefore be seen not just as an attempt to rebut the party's external critics, but also as an urgent effort to reassure the party faithful that its position is not threatened by the exploding and increasingly anarchic democratic debate in the country.

Yet Mr Gorbachev still refused to commit himself to any rigid prescription of the future face of socialism. He denounced "populist demagoguery" and "nationalist or chanvinist trends", saying. "At the present compensation of society, and the concentration of all its sound forces on the accomplishment of the difficult tasks of perecular accounts the advisability of beganing the content of the difficult tasks of perecular accounts. trolka, prompt the advisability of keeping the one-party system.

Sudden publication of Mr Gorba-Sudden publication of Mr Gorba-chev's vision of the future of socialism, in the newspaper now edited by his close political adviser, Mr Ivan Frolov, follows closely on a televised party rally in Leningrad last week where a string of conservative speakers demanded that their leaders be more accountable to

the rank and file.

"Some people reproach us that we have no clear-cut detailed plan to realise the concept of perestroika," Mr Gorbachev said.

slower than in society as a whole, which creates certain difficulties in sec-"I believe that we would have made a uring its vanguard role." **■ MAZOWIECKI IN SOVIET UNION**

recalls Katyn massacre

By Christopher Bobinski in Katyn MR Tadeusz Mazowiecki,

Poland's premier, yesterday attended a church service at Katyn, the site of a wartime massacre of more than 4,000 Polish officers interned in 1939, as part of his four-day visit to the Soviet Union The service was taken by Father Kornel Hauke Ligowski, a priest from Cracow and a

member of the official Polish government delegation, in the wood where the men died. They were killed in the spring of 1940, each by a single shot in the back of the head. Their mass grave was found by the Germans in 1943, and ever since the Soviets have refused to accept responsibility for the

Yesterday's ceremony underlines the huge importance to Poland of finally clarifying responsibility for the massacre, and belated recognition by the Soviet authorities of its import,

crime, even though it is now no longer a taboo subject in either the Polish or the Soviet

even if an admission of guilt has yet to be made. On Friday, during his meet-

ing with Mr Mikhail Gorbachev, Mr Mazowiecki insisted that normal relations could not be established between Poles and the Soviet Union until the historical record was set

He received no more than an ssurance from the Soviet leader that the question would once again be considered.

The economic talks held during the visit brought little progress, apart from promises to consider a Polish suggestion that gas deliveries be increased by 25 per cent over the 40hm cubic metres figures promised for the 1991-1995 period.

The Poles have, however, managed to win a walver of interest payments due next year on their \$1.5bn debt in the Soviet Union, enabling them to lower deliveries by the requirements of the poles of the site amount in 1990. Discussion on what to do about the Rhissbn (£55m) soft-currency debt Poland owes Moscow, which the Poles want to repay after 1995, has been postponed until decisions are

made on how to pay for trade in the next five-year period.

police unit to go

Bulgaria's new Communist leaders, anxious to show they are reformers, say they will disband a feared secret police unit used to spy on dissidents, Reuter reports from Vienna.

The Communist Party newspaper Rabotnichesko Delo sald yesterday the Interior Ministry would abolish its "aixth department", which had been used to "lead the struggle against ideological diversion".

Members of the growing opposition movement said the department was used by ousted hard-line party hoss Todor Zhivkov to spy on dissidents, many of whom were harassed, imprisoned or expelled from Bulgaria for daring even to discuss reform.

ened party.

The poll revealed that 41.9
per cent of adults supported neither the SKD nor the non-

Communist parties allied with it. Of the 844 adults ques-tioned, 31.5 per cent said they would be in favour of a "renewed" SED. The largest opposition group, New Forum, was said to have word Personal Person was said to have won 9 per cent, and the Liberal Democratic Party, which has distanced itself the furthest from the SED, 7.9 per cent. The Liberal leader, Mr Manfred Gerlach, polled 4.7 per cent, only four points behind Mr Krenz.

In an interview with the Financial Times last Friday, Mr Krenz admitted that he would not win any popularity would not win any popularity polls but would survive the party congress. Elections would not take place until the

end of next year at the earliest, he noted. It was apparent that the East German leader hoped in the meantime to shed hoped in the meantime to shed his hard-line image. Only 30 per cent of Rest Ger-mans in the poll were hopeful about developments in the past four weeks — since Mr Krenz succeeded Mr Erich Honecker — convered with 47 Honecker - compared with 47 per cent 10 days before. More than two-thirds (previ-

ously 47 per cent) had fears as well as hopes in connection

with the opening of the bor-ders to the West. East Germany introduced strict customs measures last Friday to curb the smuggling 200,000 members had resigned since the end of September, 70 per cent of them workers. Mr

> members had left the party, which had 2.3m members. The small Christian Democratic Party in East Germany surprised many East Germans by noting that it was in favour of a confederation between the two German states "in which the unity of the German

a confederation could take place only after Nato and the Warsaw Pact were dissolved.

of subsidised consumer goods to the West and to Poland. Such goods could only be pur-chased by East Germans showing their identity papers in Another blow to the hardpressed party came in a Neues Deutschland report that

Krenz said only on Friday that between 50,000 and 60,000

nation is realised".

The confederation should. take place within a Common European House, the East Ger-man CDU noted. Mr Krenz said

AST WEEK, the UK published a formidable list of obstacles to take overs in Europe, and the Euroan equally persuasive account of what it proposes to do about them. It should all have been satisfactory. But on closer reading of the British report, prepared for the Government by Coopers and Lybrand, the Commission would seem to face an impossible task. Even if it brings out its heaviest rollers, it is not going to be able to level the takeover playing

In 1988, three-quarters of all companies taken over in Europe were British. In half the member states there were virtually no takeovers at all Out of 26 hostile takeovers, 23 were in the UK. The three oth- in France, Italy and the Netherlands – were all special cases. The reason for this imbalance is less that other imbalance is less that other countries allow widespread use of poison pills, have inequitable share voting structures and boards of directors near-impossible to fire, or indulge in other practices the EC could legislate

away. Instead, it seems many countries have not heard of all these clever devices to protect their companies. The main reason for the absence of take-overs lies in the lack of devel-

corporate attitudes, and, above all, in the close control families or groups connected with the management exercise over the companies, making a hostile takeover impossible. In Italy, only seven of the 200 listed companies have over half their shares in public hands; of these, only two are free of tight family overtal. family control. The position is similar in most other coun-tries, except West Germany and the Netherlands, and perhaps not surprisingly, in these two countries the type of tech-nical barriers the Commission is out to topple, are most

The report makes clear that re the market culture on the Continent to become more open, such barriers would almost certainly start to multi-ply – making it important for the Commission to start setthe Commission to start set-ting the rules clearly now. Underlying the difference between the Anglo-Saxon and the other market is a funda-mental one of business ethics, likely to outlive any change in legislation. Only in the UK is management fully accountable to its shareholders: more or less everywhere else other less everywhere else, other things – such as employees' interests and longer-term business targets - are more important. In the UK, the principle of maximising shareholder value is paramount: anything that protects a management against



predators is simply unethical. In other countries, the opposite is the case - the idea of a predator buying a company without its consent is considered almost immoral. This does not mean Brussels is wasting

not mean Brussels is wasting its time in trying to get rid of the artificial barriers to take-overs. But it may mean that progress with parts of the legislation will be slow.

The Coopers report carefully catalogues the many technical obstacles that potential bidders may face on the Continent. These start with a general absence of up-to-date and reliable information on the company's finances and on the identity of its shareholders. Once the target has been identified, a bidder may be confronted by two-tier board strucfronted by two-tier board struc-tures (making it difficult for shareholders to sack the board); powers to issue nonvoting or priority shares; limits to voting rights; and powers of depositories to vote on behalf of shareholders. Meanwhile.

the power of trade unions, and the interventionist policies of governments — France is singled out for particularly had behaviour on this score - may also make it difficult for for-eign companies to mount suc-cessful takeovers.

The report also questions the

conventional view that barri-ers only exist to hostile take-overs. If a management knows that it is under no risk of being bypassed by a hostile bid put straight to shareholders, it will be more inclined to refuse to co-operate with a friendly bidder Brussels has made it clear that much needs to be done. There is little EC legislation in place on takeovers, but draft rules covering the most blatantly unfair practices are slowly making their way through the machine. The Commission has not only promised to speed this up, but to introduce new measures. It has commissioned Book Allen to prepare a report giving advice on the way forward, but has sent it back for redrafting. By spring next year it will be ready to put a number of sug-gestions to member states. At the moment, there are a wide series of company directives designed to improve company disclosure, to define the duties of managements and to protect the rights of characheld. duties of mangements and to protect the rights of sharehold-ers. The two most important

drafts deal with the structure,

	EC ACQ	JISITIO	HS IN	1988	
Country	Vale	ie	Nus	nber	Avg value
	£m	%		% _	2m
Belgium	160.5	0.3	19	0.9	8.5
Denmark	260.5	0.6	12	0.6	21.7
irish Rep	379.3	0.8	21	1.0	18.1
France	5,079.9	10.5	90	4.5	56.4
WG	1,987.9	4.1	49	2.4	40.6
Italy	2,337.1	4,8	35	1,7	66.8
Luxembourg	6.6		2	0.1	3.3
Netherlands	1,522_4	3.1	46	2.3	33.1
Portugal	5.3		1	0.1	6.3
Spain	1,355.3	2.8	29	1.4	46.7
UK	35,378.8	73.0	1,724	85.0	20.5
Total	48,474.6	100.0	2,028	100.0	23.9

the power and the obligations of public companies, and with the conduct of takeovers. The takeover directive.

which lays down such things as bid timetables, is making as but timerables, is making comparatively speedy progress. Some loose ends remain to be tidied up — the UK is worried that it lacks the flexibility in application granted to the Takeover Panel, while France is unhappy about the provi-sions that the bidder must bid for all the shares rather than 66 per cent - but there seems a good chance that despite these problems, it will be accepted by everyone next year. More difficult is the Fifth Directive, which enshrines the principle of "one share one vote" and establishes such things as the duties of direchome, but it is encouraging

that the German commis-sioner, Mr Martin Bangemann, tors and rights of minority promised last week to knock shareholders. This piece of leg-islation has stuck on the quesdown takeover barriers. The problem is not just getting the tion of worker participation, which is also included. The UK is not prepared to agree to anything that would make any sort of employee participation compulsory; West Germany is holding out for a compulsory right measures adopted, but persuading member states to abide by them. The Coopers report regards implementation as the biggest problem. Once the directive is passed, member states must make sure it is adhered to. If they did not regard it or recovery them. regard it as necessary, they The Commission has pledged to hurry this legislation through; it is possible the dead-lock might be lifted if the quesmay not implement it rigorously. Satisfactory implemen-tation may come back to the tion of employee participation
- also being discussed in connection with the Social Charter different culture in different markets. The EC may not be able to do much about this, but the UK Government is not des-paring. By broadcasting the and the European company statute - could be shifted elseadvantages of the Anglo-Saxon way, it hopes businesses and shareholders from Antwerp to Athens will see the light. where. It is also likely to put forward measures on some of the following: proxy voting; companies buying in their own

Lambsdorff urges EMS realignment shares without shareholder

MR Otto Lambsdorff, leader of the Free Democratic Party (FDP), a partner in West Germany's ruling coalition, has added his voice to the muted warning sounded by the Bundesbank about the risks of delaying a realignment within the European Monetary System (EMS) for too long Andrew Fisher reports from Frankfurt

He called for an urgent review of the EMS, in which the last realignment was nearly three years ago. Since pointed out in its latest monthly report, inflation dif-ferences and trade imbalances between members have increased considerably. Recent support for a realignment has come from German bankers and industrialists.

Mr Lambsdorff, a former Economics Minister, said exchange rates had been set firm in the EMS as a result of

firm in the EMS as a result of political decisions. But "divergences in the development of prices, in budget policies, and in external balances are increasing again".

The EMS had been conceived as a system of fixed but adjustable exchange rates, he noted. The Bundesbank made clear it disapproved of timely realignment being held up for political control of the property of the property and the property of the pr ment being held up for politi-

GM begins supplying Korean engines to W Europe operations

By Kevin Done, Motor Industry Correspondent

GENERAL Motors has begun supplying engines from South Korea to its operations in West Europe for the first time, in order to alleviate production bottlenecks and lack of capacity at its European engine

The company is expected to ship around 3,000 1.6 litre petrol engines from South Korea to its Bochum engine plant in West Germany in the last two months of this year, with deliveries rising to 25,000-30,000 units in 1990.

GM is also expected to decide in the next few weeks on the location of a new £140m engine plant, which it is proposing to build either in the UK or in West Germany. A final deci-sion could be made before the

end of the year. end of the year.

The Korean engines are being supplied by Daewoo Motor, a 50/50 joint venture between GM and Daewoo, a leading Korean heavy industry group. The engines will be fitted in Europe in some versions of the Opel Kadett/Vauxhall

Astra small family car.

The Daewoo engines produced under licence were designed and engineered by Opel, GM's West German subsidiary. They are currently fit-ted to the Pontiac LeMans, a version of the Opel Kadett/ Vauxhall Astra assembled in South Korea for sale in the US, and in the Daewoo LeMans for the domestic Korean market. GM's move to supply engine from South Kozea to Europe follows earlier steps to deliver engines from both Japan and Australia to its West European

It currently ships around 115,000 1.8 and 2.0 litre petrol engines from General Motors-Holden's, its Australian subsidiary and some 48,000 1.5 and 1.7 litre diesel and turbo diesel engines from Isuzu, its 41.6 per cent-owned Japanese associate

The US group will produce 1.5-1.6m cars and light commer-cial vehicles in Europe this year at its assembly plants in West Germany, Spain, the UK, Belgium and Portugal. It is

currently seeking to raise production levels at several of its car assembly plants in the face of record sales.

GM (Opel and Vauxhall) is the fastest growing of the "big six" volume car makers in Europe this year - and many of its European assembly and components plants are running

The two candidates for the group's new European engine plant are Ellesmere Port, Merseyside, in the UK, where GM currently assembles the Vauxhall Astra, and Kaiserslautern in West Germany, where GM builds engines, gearboxes and

GM has refused to confirm details of the project, but it is understood that the company is planning to begin production of a new range of 2.5 and 3.0 litre V6 engines in late 1992, with production rising to 35,000-40,000 units a year. The

The V6 engine range is presence in the top end of the

Vauxhall, GM's UK subsid iary is still seeking final agree-ment from its Merseyside workforce on far-reaching labour reforms at the Elle mere Port plant, as a pre-condition for attracting the engine plant investment to the UK. GM, which currently builds engines at four locations in West Europe — Bochum, Kaiserslantern and Russelsheim in West Germany and Vienna abandoned its last car engine sembly operation in the UK at Ellesmere Port in 1984 as part of the retrenchment of its Vauxhall and Bedford

With the recovery of the UK motor industry in the last cou-ple of years, GM Europe has begun to source an increasing volume of components from the UK, however. It has re-allo-cated more than £450m of comsuppliers during the past three

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President Roh in UK today

PRESIDENT Roh Tae Woo of South Korea arrives in Britain today for an official visit which will concentrate on trade and business issues, with Korean barriers to British whisky imports certain to be raised, Robin Pauley, Asia Editor, writes. Seventeen leading South Korean businessmen have come to London to meet President addresses the Confederation of British Industry on Wednesday.

South Korea wants to increase its investment in Europe before 1992, and is

chasing more European invest-ment in South Korean high-technology industries. President Roh will attend a GEC-Marconi display at Imperial College in London on Thursday showing the state of develop-ment in joint research projects with South Korea on an advanced robot and a telecommunications satellite. But it is in his meetings with Mrs Margaret Thatcher, the Prime Minister, and Mr Nicholas Ridley, Trade and industry Minister, that thornier trade matters, including the whisky issue, will arise.

WORLD ECONOMIC INDICATORS INDUSTRIAL PRODUCTION (1985 = 100)							
US W. Germany UK Japan	Oct. 89 114.3 Sept. 89 111.7 110.5 119.2	Sept. 189 115.1 Aug. 189 112.4 111.4	Aug. '89 115.1 July'89 112.2 109.8 118.1	Oct. 88	% change over previous year +1.4 +3.4 -0.4 +3.8		
France Italy Netherlands	Aug.*89 111.8 120.7 July *89 106.3	July '89 111.5 117.3 June '89 104.7	June '89 113.1 117.0 May'89 105.9	Aug. '88 108.1 118.2 July '88 104.6 \$purpe: (exe	+ 3.4 + 2.1 + 1.6 ppr US) Eurostat		

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Pound faces further pressure on foreign exchanges

Major firm on use of interest rates

THE POUND is likely to come under further pressure on the foreign exchanges this week in spite of yesterday's assurance by Mr John Major, the Chan-cellor of the Exchequer, that he was ready to raise bank base rates further in the fight against inflation.

Mr Major, speaking yester-day on the Channel 4 programme Answering Back, said:
"If it is necessary in the wider judgment to use interest rates by raising them again to bear down on inflation, then of course I will do that. Inflation is the first priority and we must seek to bring that down.

It has been the markets' lack of confidence in the Government willingness to

ment's apparent willingness to take the politically unpopular course of increasing rates again, allied to pessimism about the economic outlook, that has undermined the

Last week sterling fell 7 pfennigs against a strong D-Mark, to DM2.82, its lowest level for more than 2½ years. Analysts in the City of London have warned that with little fundamental support for the pound, the sterling/D-Mark rate could drop to DM2.70 by the end of the year if base rates remain at 15 per cent.

Sterling Against the D-Mark (£ per DM)

November 1989 interest rates used by Mr Nigel Lawson, Mr Major's predeces-sor as Chancellor, has been

quietly shelved. Some City of London analysts are convinced that Mr Major is prepared to let the markets decide the fate of the pound. The alternative would be a rise in interest rates to support sterling.

Analysts regard such a move

unlikely because it would inflict further political damage on the Government at a time when the Prime Minister was facing a challenge to her leadership, and the Conservatives were falling further behind



John Major

economy. The Confederation of British Industry, the employers' organisation, says in its monthly trends survey for November, published today, that British business is increasingly pessimistic about the future.

Companies are reporting the worst outlook for orders for over two years, reduced demand for exports, and a growing accumulation of growing accumulation or stocks, according to the sur-vey. In its latest forecast for the economy, also published today, the CBI predicts that the next two years in Britain will see slow overall economic growth, an end to the investment boom in manufacturing industry, and flat company

Aware of widespread con-cern that the economy is being wounded by high interest rates, the Chancellor sought yesterday to allay the fears of the business community and the City of London that the economy is being pushed into economy is being pushed into

He said that the forecast of 1% per cent economic growth next year, carried in the recent statement on Government expenditure plans, was not a prediction of recession. He said: "What will happen over the next year or so is that growth will continue, but at a modest rate."

speaking on the subject of fiscal policy during the Chan-nel 4 programme, Mr Major confirmed that there was little chance of fresh income tax

chance of fresh income tax cuts next year. He said: "I don't know whether we'll be able to pro-ceed with reducing taxes in the next Budget, or the Budget thereafter. We will have to see what progress we make with inflation..."

The City had been alerted last week to the likelihood that there would be no reduction in the tax burden in the Budget next March when the traditional reference to the expecta-tion of income tax cuts was omitted from the Queen's

Deutsche Bank deal expected

By David Barchard.

MORGAN GRENFELL, the London merchant banking group, is expected to announce today that it has struck a deal with Deutsche Bank, after a weekend of last-ditch negotiations to fend off a likely takeover bid from Banque Indosuez the French bank.

Mr John Craven, Morgan Grenfell's chairman, has to announce a deal by Wednes-day, when shareholders at Wil-lis Faber, the insurance bro-ker, vote on whether to sell a further 10 per cent of Morgan Grenfell to Banque Indosnez at

462p a share. Mr Craven is thought to have spent the weekend trying to persuade Deutsche Bank to make a bid at £5 a share, valuing the group at just under £800m (\$1.26bn). The deal would involve at least one

would involve at least one other institution.
Indosuez, which wants to form a pan-European banking group became the largest single shareholder in Morgan Grenfell on October 26. However, the price Indosuez is offering Willis Faber shareholders is 14p under last Friday's closing price of 476p. Morgan Grenfell's management has been determined to prevent the French bank becoming dominant among its

Polls put Labour further ahead as Thatcher faces challenge

By Michael Cassell, Political Correspondent

PRESSURE aimed at averting a damaging challenge to Mrs Margaret Thatcher's leadership will intensify at Westminster this week in the run-up to the Thursday deadline for nomina-

Introduced the start of what inevita-his start of what inevita-his will be a tense and auxious week for the government, there was further had news in the shape of new opinion polls put-ting the Labour opposition party still further ahead and confirming recent indications confirming recent indications that Mrs Thatcher herself is increasingly regarded as an electoral liability.

No challengers to the Prime Minister have yet formally announced their intention to stand, although Sir Anthony Meyer, the MP for Clwyd North-West, yesterday repeated his readiness to challenge the Mrs Thatcher if no one else came forward.

Mr Christopher Patten, the Environment Secretary, said that Sir Anthony's challenge was "bad for the country and certainly bad for the Conserva-

certainly bad for the Conserva-tive party".

He said it would be "pro-foundly dishonourable" for a former minister in Mrs Thatcher's administration to do other than argue and fight vigorously for her to continue. Some MPs last night suggested that Sir Anthony



could yet bow to intense pressure not to provoke a contest which would further harm the

government's standing.
But yesterday Sir Anthony
emphasised his belief that it was Mrs Thatcher's continuing leadership itself which jeopard-ised a Conservative victory at the next election.

Sir Anthony claimed that

about 20 Tory MPs who had been openly critical of his stand had privately urged him

to go on. He said that, unless Mrs Thatcher went now, he feared "a rather painful process of internecine warfare".

Mrs Thatcher is expected to brush off the possible chal-lenge when she is interviewed

on BBC television tonight. Though government whips accept they can bring little direct pressure on Sir Anthony to withdraw, they will be stepping up last-minute efforts to drive home the message to all MPs either potential candidates or their supportant that dates or their supporters that there should be no contest.

The main interest among Tory MPs this week will be to see whether any more substansee whether any indicates to step ital contestant decides to step forward before Thursday and then persuade a sufficient number of colleagues to register a strong enough protest on the following Thursday to undermine Mrs Thatcher's

undermine Mrs Thatcher's position.

According to a Mori poll in yesterday's Sunday Times newspaper, the Labour opposition lead the Tories by 14 percentage points, with 51 percent support against 37 percent for the government.

Labour's rating is the highest since Mrs Thatcher became prime minister and its biggest lead since November 1980.

The same poll shows that

The same poll shows that one in four Conservative supporters believe Mrs Thatcher should stand down before the

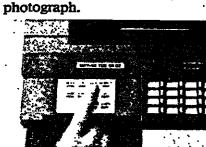
next election.

Mr Michael Heseltine, the former Defence Secretary, emerges as the most popular alternative.

The currency markets now believe that the policy of proping up the pound with high CBI details: Page 10 Black and white is only half a zebra. Real zebras, like most things in

هكذاصم الأصل

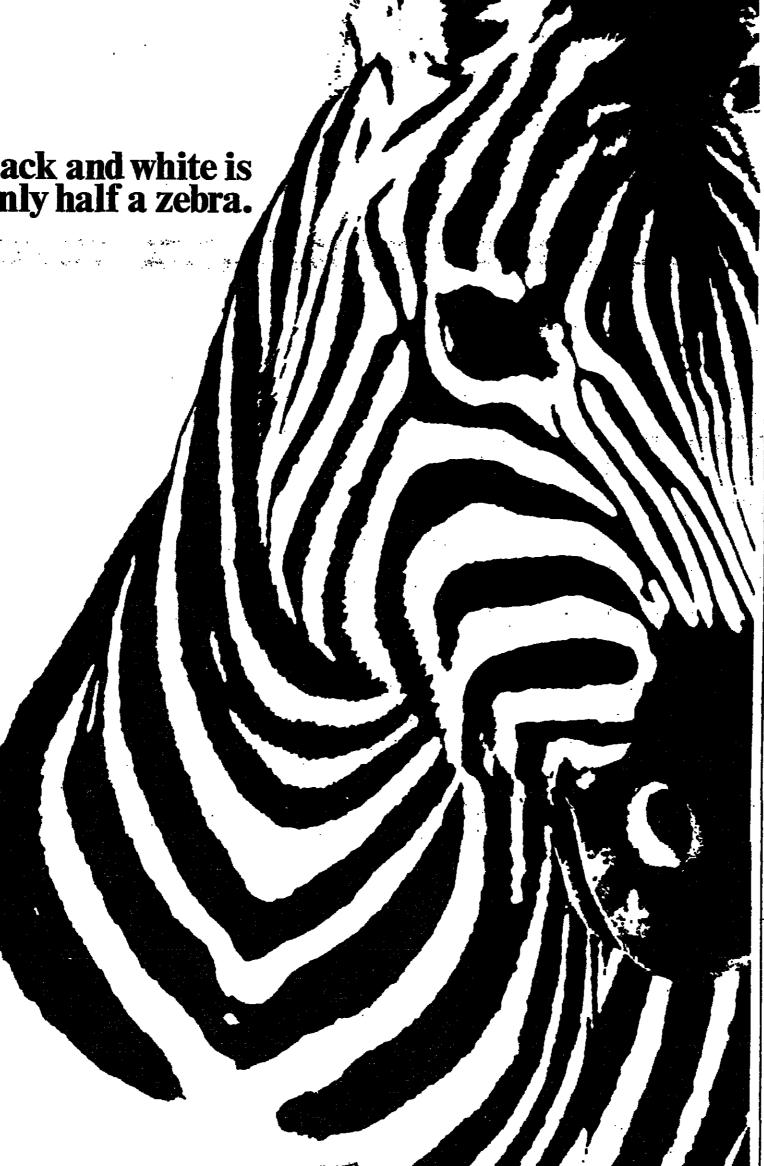
life, aren't just black and white, Even the whitest stripe contains a few grey hairs. Reality is, after all, mostly shades of grey. That's why Hitachi's late-model faxes feature a 16-step grey scale to clearly transmit even subtle shades. This capability results from a proprietary 0.125 mm dot scanning pattern and an image-processing LSI. Meticulous integration of these two technologies assures exceptional accuracy of tones over a range so wide that you can even judge the quality of a



Whatever the product, from faxes and image processing equipment to home appliances and super computers, Hitachi has the same philosophy. This philosophy goes beyond incorporating in-house developed technologies. Each feature, major and minor, each device, on a macro and micro level, is designed with every other feature in mind. The result is indepth technological integration, guaranteeing the special quality which is the hallmark of Hitachi.



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Sex equality report urges pay reforms

By Lisa Wood, Labour Staff

UNIONS and employers have not yet sufficiently widened the agenda of collective bargaining in order to tackle sexual discrimination at work, according to a report published today by the Equal Opportuni-

today by the Equal Opportunities Commission.

The report comes at a time
when many unions say they
are putting more effort into
changing bargaining to include
women's issues. But the report,
which examines the engineering, food and knitwear industries, indicates that the status
quo still largely pertains in
these industries.

The report, which follows an
earlier study which pointed to
the need for improved statutory provisions, argues that

tory provisions, argues that both employers and trade

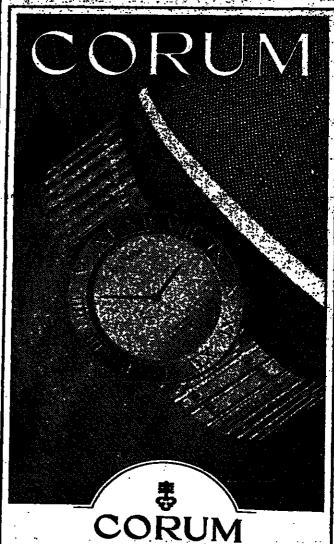
unions should "see the sense, as well as the justice" of tackling sexual discrimination. This would mean, in many
organisations, integrating
equal opportunity policies with
the collective hargaining.

"The case studies reveal that
the bargaining agends are
invariably narrow with pay as
the most important and often
the only item. Negotiators
focus on increases in basic pay
without questioning whether
the existing pay or grading
structures are fair to both
sexes," the report says.

sexes," the report says.

Negotiations were handled by men, and issues of particular importance to women were often perceived by their unions as minority rather than mem-

3



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The Financial Times proposes to publish a Survey on the above on

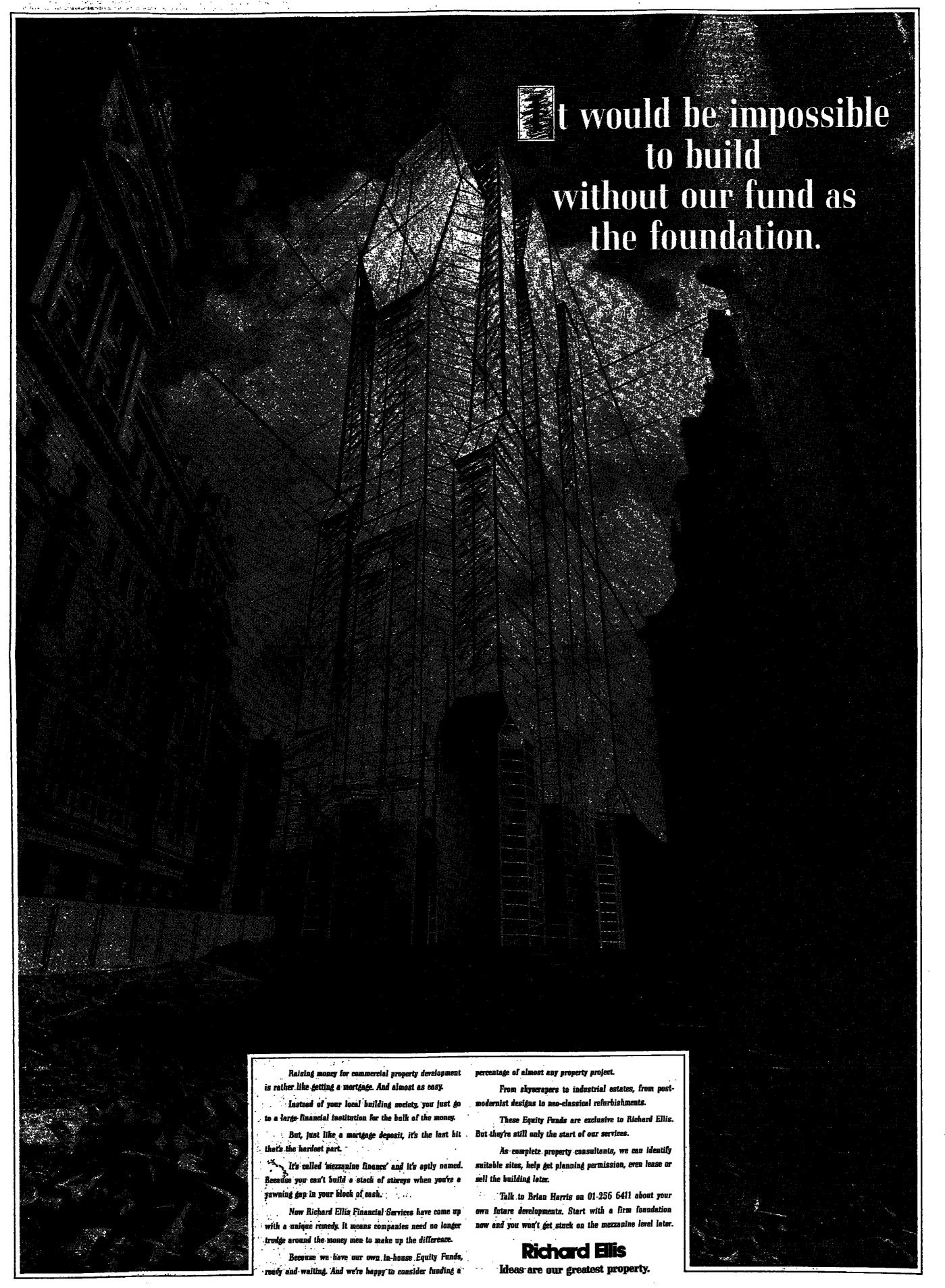
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FINANCIAL TIMES



Oftel faces legal challenge from games company

be offered only if they con-formed to a strict code of prac-

Sir Bryan wanted to control the services because he believed children were running up large phone bills by using the services, which are charged

at a premium rate. That was a similar argument to the one he

used to control Britain's con-

troversial chatline services,

which allow groups of people to gossip over the phone, after a Monopolies and Mergers Commission report into them

earlier this year.

Computerdial argues that

the MMC report's conclusions concentrated on chatlines, not

interactive services. Moreover,

it believes the director general did not give proper notice of his intention to regulate the

services.
Mr Bret Pirquet, Computer

dial's managing director, said:
"We didn't want any decision

to be made without careful

Bird and Bird, Computer-dial's lawyers, and Sir Bryan,

said they expected the dispute to be settled by agreement.

Any agreement would have to be approved by the court.

had progressed beyond the

growing at an exponential rate, and that sales and profits were

expected to increase strongly

in the coming year.

Although that is still tiny by

comparison with BT's operat-

ing profits of £1.5bn on turn-

over of £6.0bn during the same

period, Mercury's traffic has been concentrated in lucrative

business areas, particularly in

It is unclear how much Mer-

international routes.

Mercury must share

BT's subsidy costs

By Hugo Dixon

SIR Bryan Carsberg, the director general of the Office of Telecommunications, is facing a court challenge, indicating that he overstepped his authority in passing stiff regulations to control interactive telephone It is believed to be the first

time that a decision by any of the regulators set up by the Government to oversee the newly privatised utilities has been subject to judicial review. The regulators were given considerable discretion and authority by the Government in order to make them independent of day-to-day political pressures. However, the cur-rent legal challenge seems likely to set a boundary to how such wide powers can be exer-

Sir Bryan's decision is being challenged by Computerdial, one of the largest suppliers of interactive telephone services. Computerdial managed to get a temporary stay of execu-tion of the new rules during a

High Court appearance on September 13. It is now seeking a court order quashing the rules.

Computerdial is best known for its telephone adventure games, which allow people to explore a fantasy world of mazes and monsters, and its telephone version of Trivial Pursuit, where customers are asked to answer general know-ledge questions. The company has also been expanding into interactive business services,

By Hugo Dixon

MERCURY Communications, British Telecom's smaller rival,

will soon have to pay its share of the bill for subsidising loss-making rural phone services, according to the Office of Telecommunications, the industry's regulatory body.

The move will put an end to Mercury's ability to skim off the most profitable telephone business and leave BT with the burden of maintaining a

Sir Bryan Carsberg, Oftel's

director general, refused to

name a date when Mercury

would assume such responsi-

bilities. However, in an interview last week, he said: "We

are rapidly moving towards the

At present, BT bears the whole responsibility for ensur-

ing that anybody in the coun-

try can be connected to the phone network. It also subsid-ises the public phone box ser-vice, at a cost of about £30m a

The Government decided

that it would be unfair to

impose the same responsibili-

ties on Mercury when it was

planned to meet cost

By John Hunt, Environment

which are used for various types of promotions.
Computerdial, a privately
owned company with turnover
of £2.5m last year, said its busi-A "GREEN tax" may be ness was threatened by Sir Bryan's decision in July that interactive services lasting more than five minutes could retary, said yesterday.

This is the first time that Mr

suggested such a tax in a pam-

cally dangerous and would

cellor, would be examining such a tax. Mr Jonathan Dim-bleby, the interviewer, asked if he would be asking the Chan-cellor to consider it for the

Multi-track EC plans for 1992

By Robert Mauthner, Diplomatic Correspondent

Community, with curbs on the powers of the European Commission and different groups of countries coming together on different priorities, is proposed in a report published today by the Institute of Economic Affairs.

the European Commission is ill equipped to deal with the agenda of post-1992 co-opera-tion in the Community, and calls for the removal of the Commission's "monopoly power" to propose legislation. Entitled Europe's Constituthe City of London, and on cury would be expected to con-tribute towards maintaining ional Deficit, it proposes five-point agenda for a new EC constitutional settlement after

'Green' tax of pollution

Correspondent

on fossil fuels such as coal and oil in order to pay for the costs of the atmospheric pollution they cause, Mr Chris Patten, the Environment Sec-

Patten has publicly referred to such a tax, although he and Mr John Wakeham, the Energy Secretary, have emphasised over the past few weeks that the cost of energy will have to rise to meet the cost of a cleaner environment.

When Mr Patten's predeces-sor, Mr Nicholas Ridley, phlet earlier in the year he came under flerce attack from the Labour Party.
Such a move would be politi-

cally dangerous and would involve higher domestic fuel bills as well as dearer petrol. Fossil fuels are the main contributor to the greenhouse effect of global warming. It is now likely to be considered as part of the wide-ranging white paper on environment policies to be produced by the Government next year.

ment poincies to be produced by the Government next year. Yesterday Professor David Pearce, Mr Patten's special advisar, suggested that part of the revenue of "green" taxes could be used to offset the burconin be used to onset the bur-den of income tax and corpora-tion tax. Mr Patten appeared to agree. Both were appearing on BBC TV's On the Record. Mr Patten said he was sure that Mr John Major, the Chan-

white paper.
Mr Patten agreed that he would, even though the various possibilities would not all be popular.

Bryan said he had always made clear that he would give Mercury a share of the social obligations when its business had progressed beyond the start-up phase, and that time was now rapidly approaching. Mercury last week reported operating profits of £14m on turnover of £142m in the half year to the end of September. Mr Gordon Owen, its managing director, said the company was growing at an exponential rate

A MULTI-TRACK European

The report emphasises that

local services, because the exact amount of BT's social the 1992 single market.

Europe's Constitutional Defi-cit. IEA Inquiry 13. IEA, 2 Lord North Street, London SWIP subsidy has to be calculated. However, the money is likely to be raised from a special social levy on all phone calls.

Cash flow trouble in 'arms sale of century'

Andrew Gowers finds the euphoria of a £15bn deal with Saudi Arabia is diminished

expansion of Britain's Al-Yamamah defence contract with Saudi Arabia was announced in July last year, many observers were quick to hail it as "the arms sale of the century."

Overnight, an already lucra-

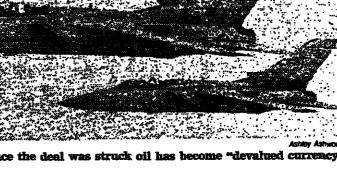
tive agreement for the supply of Tornado fighter aircraft was transformed into an agreement that placed Britain in the very front line of Saudi Arabia's military suppliers. It was a massive framework, into which deals could be slotted that might eventually be worth upwards of £15bn and keep British Aerospace and a whole range of other British defence companies busy into the 21st century.
Today, there must be

moments when BAe and the other contractors involved principally Westland and Vosper Thornycroft - find them-selves wondering whether the contract is not coming more closely to resemble a protracted headache.

British Aerospace is involved in a costly and time-consuming effort to drum up £1bn in offse investments in Saudi Arabia which it had not envisaged or budgeted for when the con-tract's first phase was ini-tialled in 1985. Some of the other companies are waiting anxiously to hear when, or if, their parts of the deal are

likely to go forward.

But by far the biggest problem plaguing the deal is a
financial one. It goes back
almost to the contract's beginnings in 1985 and revolves around fluctuations in the between the volume of equip-



Tornados for crude: but since the deal was struck oil has become "devalued currency"

which Saudi Arabia is largely paying for equipment.
Under a barter arrangement in force since the contract began, Royal Dutch/Shell and British Petroleum have been lifting 400,000 barrels a day (b/d) of Saudi crude and paying the proceeds into a Ministry of Defence account, from which relevant payments are passed on to the contractors. By a curious stroke of ill luck, oil prices began a precipitous plunge soon after the first deal was struck, thus sharply reduc ing the flow of cash into BAe's coffers. All efforts to resolve

The matter has been coming to a head this year after the signing of Al-Yamamah 2. It has been common knowledge along bankers in Riyadh for some time that BAe is worried by the increasing disparity

DISHONEST employees and

managers are costing the

the issue to date have found-

ment supplied and the flow of money from Saudi crude. Con-cern about the risks involved in the barter deal even prompted the National Audit Office, Parliament's financial watchdog, to launch its own discreet inquiry last spring. Now the British Government

is touting the idea of a £2bn bank loan to keep the project affoat. Unless somebody comes up with money of that order — or Saudi Arabia increases its commitment of oil by at least 100,000 b/d — something in the contract itself may well have to give.

The exact size of the gap between equipment supplied and oil receipts is unclear, but British Aerospace is believed to have delivered £4bn worth of equipment under phase one of the contract. Under both phases of Al-Yamamah, BAe, which has 3,000 expatriates working in Saudi Arabia on have raised doubts as to

the contract, is supposed to the contract, is supposed to deliver more than 100 Tornado fighters — including interdic-tion-strike (IDS) aircraft and the so called air defence vari-ant (ADV) — as well as Platus PC9 trainers and Hawk 200 trainers. About 30 of the Tor-nados and many of the training aircraft have been delivered so

There was also provision for Saudi purchases of six minehunters from Vosper Thorny-croft and of a sizeable batch of Black Hawk helicopters from Westland, as well as the con-struction of a large new air-base at Al-Sulayil in the Empty Quarter of south-eastern Saudi

Only one of the minehunters has so far been launched, due for delivery in 1991, and no firm orders have been placed with Westland. The financial

whether the Saudi Government will want to proceed with these parts of the contract.

The current difficulty poses awkward dilemmas for Saudi Arabia, which has placed heavy emphasis on defence spending in spite of the recent spending in spite of the recent years of recession and a chronic budget deficit. Boosting sil liftings under the agreement might prove problematic, as this would simply deprive other parts of the cash-hungry government of funds.

On the other hand, the Kingdom has historically been reluctant to engage openly in

reluctant to engage openly in resuctant to engage openty in large-scale foreign borrowing, and Sheikh Hamad Sayari, governor of the Saudi Arabian Monetary Agency, told the FT last week that the Government bad no state before 1200.

had no such plans. As a result, some foreign bankers in the Kingdom believe that any British-backed loan may take the form of an export credit to the companies themselves rather than a sovereign borrowing by Saudi Arabia. Who would be respon-sible for paying the interest is

not clear. Whatever financial arrange ments are eventually agreed insiders believe that a signifi-cant slowdown in deliveries under the Al-Yamamah con-tract may be inevitable and that a partial reduction in its scope is a strong possibility. There are so many uncertain ingredients to this; the volume of oil liftings, the dollar/pound exchange rate, oil prices and not least Saudi Arabia's own priorities," said one person involved. "But I think there

Fraud cases on the increase, report finds

By Alan Cane

FRAUD against large UK companies, especially those in the financial sector, is both substantial and on the increase, a report claims The report, conducted jointly by the University of Wales and

Ernst & Young, the manage-ment consultancy, says few companies believe that either the recently established Seri-ous Fraud Office or the tough new City regulatory regime are having much effect in curtail-ing fraud either in the financial services sector or in retailing, manufacturing and distribution.

No financial services company and only one in eight other companies had any confidence that the police could deal with a computer fraud. It shows that of 200 leading companies surveyed this sum-mer, over half had reported a fraud to the authorities in the past five years. Two thirds of those suffered a fraud involving more than 250,000, while just under 10 per cent reported a fraud involving more than

By Hazel Duffy

retail industry more than £2bm a year, a Manchester conference was told last week, writes Martin Regan. Delegates to the conference on Fraud and the Retailer were told that most retailers can expect to lose £500,000. The worst frauds

reported to the authorities involved average losses in excess of £215.000. The report was designed to find executives' perceptions of the growth of fraud and views on what should be done.

The new study shows that half the companies contacted thought that fraud had become much more common in the past five years, while no concern believed it had become less common. It was completed before Fer-

ranti's financial difficulties, the result of an alleged fraud, became generally known.

per cent of annual turnover through theft by customers Sir Kenneth Newman, a

between 1.5 per cent and 5

former police commissioner, who chaired the conference, said attitudes to employee crime had to change before it

Ernst & Young says the sheer scale of the Ferranti affair might have strengthened exec-utives' conviction that fraud

next September.

was growing.
Mr David Sherwin, Ernst & Young's fraud expert, points out in the report that the two London fraud squads alone dealt in 1988 with frauds that placed at risk sums totalling over £4bn; well over 100 times the sums dealt with 20 years

ago.

The survey threw up an interesting hierarchy in the way "City frauds" were perceived: investment fraud was

However, no bank will have

to agree formally to help run the loans company until after the Student Loans Bill, pub-

lished last week, passes through Parliament.

persuade other banks to follow the example of Lloyds, the

largest of the three banks that has dropped out of talks with

the Government.
The NUS will issue a circular

The NUS believes that it can

dealing, which in turn was seen as substantially worse than the dishonest making of multiple share applications.

Frauds were exposed chiefly through internal checks and audits but only rarely through an external audit. In contrast with the 1985 survey, there were no instances of disgruntled mistresses blowing the whistle on their erstwhile part-

While executives were united in condemning fraud and urging that steps should be taken to prevent it, they were less positive about the penalties for offenders. In frands involving £10,000, for example, there was support for eition of co service, a punishment rarely used by the courts in fraud cases. In general, companies were more concerned to retrieve lost money than to punish the fraudsters.

Fraud 89. Mrs D. Bell, Ernst & Young, Becket House, I Lam-beth Palace Road, London SE1

this week to the offices of some 800 student unions asking them to launch a series of actions that will include:

Mobilising individual students to warn their bank managers that they will switch

their accounts from banks sup-

Organising mass lobbies by student customers of banks

every Friday.

• Warning bank managers

that participation in the loan scheme will result in with-

drawal of student union

accounts or in some other way.

porting the loan scheme.

Unionists in election challenge

NORTHERN IRELAND'S two main unionist parties are to challenge each other in future general elections for seats which nationalists are deemed

to have no chance of winning. The move changes arrange-ments in existence since signing of the Anglo-Irish Agreement in 1985 whereby sitting MPs of the Democratic Unionist Party and Ulster Unionist Party have been given a clear run in elections.

The joint unionist pact in relation to the agreement will continue and there will still be co-operation over key marginal constituencies.

BA executive stays

MR Michael Batt, head of central marketing at British Airways, has changed his mind about leaving the company to take a position at Virgin Atlan-

tic Airways. Earlier this week Mr Batt announced he would be taking up an appointment as executive director responsible for commercial operations at Virgin, to be in charge of sales, marketing and products.

Mr Batt said yesterday that after closer examination of the position he had decided not to account the effect.

accept the offer.

Boeings 'safe'

A WIRING FAULT discovered in British Airways' five Rolls-Royce-powered Boeing 747-400 aircraft is not a threat to safe operation, the airline stated resterday.

BA was one of three airlines by Was one of three airlines flying 747-490 aircraft powered by Rolls-Royce engines that were last week notified of the fault by Boeing. The others were Qantas, of Australia, and Cathay Pacific, of Hong Kong.

Welsh investment

TWO Japanese companies, Dynic Corporation and C.Itoh, are to join forces in a venture to produce printer ribbons in

The £0.5m investment will be the first by a Japanese concern in the Weish capital since Panasonic started to produce television sets in the city in 1974.

The plant will intrially complex The plant will initially employ around 105 people and is expected to start next spring.

Talks consider London road jams

By Kevin Brown, Transport Correspondent

LONDON'S rival Conservative and Labour local authority associations will join academics and businessmen today at a convention - highlighting cross-party concern over the capital's transport difficulties. The convention, organised jointly by the Conservative-controlled London Boroughs Association (LBA) and the Labour-run Association of Lon-don Authorities (ALA), aims to draw up a comprehensive transport plan. Mr Simon Randall, chairman

of the LBA's housing and works committee, said: "Lon-don is grinding to a halt and positive action is needed now if the transport crisis is not to threaten its very future as a prosperous and competitive city."
The ALA will tell the con-

vention that average traffic speeds in central London will

BIRMINGHAM

fall from 11mph to 9-10mph over the next decade unless the

on private car use. The convention follows

Transport Secretary, recently announced the go-ahead for a £1bn extension of London Underground's Jubilee Line along the south bank of the River Thames via Docklands to Stratford, in east London. However, decisions on a number of other important railway projects in the capital

Government accepts the need for radical improvements in public transport and controls

mounting concern among pro-fessional bodies that London is in danger of coming to a stand-still. The Confederation of Brittion of Civil Engineers are among those which have called

ish Industry and the Institufor urgent action to ease con-Mr Cecil Parkinson, the

have been put off, including a proposed east-west Crossrail ne for a link with British Rail-height tunnels from Pad-dington to Liverpool Street.

when the Government releases the final proposals of consul-tants studying congestion in four specific areas of London. Separately, the Government is considering going ahead with proposals to enforce a parking ban on key routes into London. An announcement is expected shortly, although it is not clear whether Mr Parkin-son will adopt the proposals of a group of Conservative MPs who have campaigned for the establishment of "red routes." They would have red lines painted by the side of the road

instead of yellow ones, with

severe penalties for parking offences.

Conference

revive the inner cities, may founder because of a downturn in the economy.

The fears have become apparent from the text of a letter sent recently by Mr David Hunt, the Environment Minis-Mr Parkinson also faces a potential row next month ter in charge of inner-city policy, to leading property developers active in Docklands

In the letter Mr Hunt assured developers that there would be no backsliding from the Covernment's push to

the Government's push to revive Docklands through a mixed public and private-sector partnership. He quoted the Autumn Statement, in which the annual financial commitment to Docklands rose to £813m from £499m in the years 1989-90 to 1991-92. Mr Hunt said the transport system had to be improved,

and the projects sponsored by the development corporation "must be sustained."

centrepiece of its plans to

Students lobby banks over college loans Government fears setback By David Thomas, Education Correspondent

in Docklands THE NATIONAL Union of Students will begin a series of protest actions this week scheme due to be introduced igned to persuade the banks designed to persuade the banks to drop their participation in THE GOVERNMENT has expressed fears that the revival of London's Docklands, the the Government's proposed

student loans scheme The actions will include organising students to switch their bank accounts, as well as warning banks that their access to new students might be restricted. Ten banks, including Bar-

clays, National Westminster and Midland, agreed this month to draw up a prospectus Balance-sheet price on brand values urged By David Barchard

STRONG support for the idea that brands have a value that should be measured and known is contained in a survey published today by Interbrand, the brand consultancy that pioneered the idea that brands have market value. The survey, by Payne Stracey Partners, is being published on the eve of the

Accounting Standards Commit-

CITY

tee revising its rules on balance sheet valuation of brands.
It shows that 92 per cent of financial directors and controllers at 71 large brand-owning

companies in the UK believe brands have a financial value. Of those, 83 per cent believe that the value of a company's brands should be disclosed in

its financial statements, either as a note to balance-sheet

Just under three quarters —
72 per cent — thought that an independent assessment of brand value was important. A similar ratio - 73 per cent - said that brand valuation was useful to brand management. Slightly more of those surveyed - 77 per cent - said brand valuation was a way of finding merger opportunities.

Foreign tourists likely to reach record numbers

BRITAIN is on course to receive a record number of overseas visitors this year,

according to figures to be published this week by the Gov-However, the statistics, which cover the first nine months of the year, come at a time when the UK package tour industry is facing perhaps its worst difficulties yet.

The fall in travel bookings for overseas holidays, which the travel trade blames on rising interest rates, has already led to: A sharp fall in the level of package holiday bookings for

 Warnings that more than 1,000 travel agents might go out of business next year, with one of the leading multiple chains also being taken over.

 A cut in the operations of charter airlines, including the disposal of surplus aircraft and the leasing of others to airlines outside the UK. Yet the World Travel Market

travel in the early 1990s.

Market leader Thomson Holidays has already reacted to the fall by cutting its planned capacity by a million holidays for next year. However, many others expect the market to get even worse in the new year. A tourism report published last week also suggests that con-cern over pollution has led to a downturn in sales.

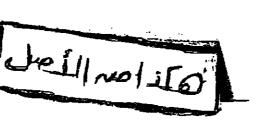
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WORLD

By David Churchill, Leisure Industries Correspondent

opening tomorrow in London will this week accommodate 2,500 exhibitors - the highest number in its 10-year history. It is the UK travel trade that is showing most pessimism about the demand for leisure

Opening of

Restaurant

Open: Breakfast, lunch, dinner & private functions

UK NEWS

Midlands will go green with project for megaforest | Members of Fimbra

Richard Tomkins looks at plans for Britain's first large-scale broadleaf planting since the New Forest

wood forests is a rare event in Britain. The last time it was done on any

large scale was done on any large scale was in 1097 when willism the Conqueror delineated the New Forest in Hampshire as a hunting ground.

History, therefore, will be in the making today when the Countryside Commission announces its proposals for establishing another new forestablishing another new forest. Like William the Conqueror's, this one will cover an area of about 150 square miles, but this time it will be somewhere in the Midlands.

There are sound commercial reasons for creating what has already been dubbed the niega-forest. Britain, once a densely wooded island, has lost its trees to agriculture and industry over the canturies to the point where it has become the least forested country in

With an annual timber con-sumption of 50m tonnes, or 100m trees, Britain is able to meet domestically only 10 per cent of its needs. The result is an annual timber import bill of nearly \$70m to make up the an annual timber import our or nearly £7bn to make up the difference — the country's fourth-biggest import bill after food, fuel and motor vehicles. Commercial objectives, how-ever, are not the main ones underlying the Countryside Commission's scheme. On the contrary, the commission

THE creation of hard- argues that commerce has played too great a part in dictating forestry policy, and that woodlands should achieve a wider range of objectives.

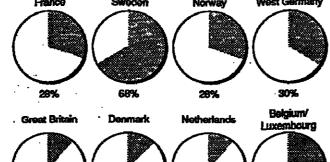
At the end of the First World War, Britain was even more severely deforested than it is today, with only 5 per cent of the country covered. In the 70

years since, extensive planting has taken place: but the policy underlying it has focused on increasing timber production. The result is that although Britain's woodlands have increased by 1m hectares, most of the new trees are fast-growing conifers that have sprouted up in densely packed, regi-mented rows in unland areas, where the land is cheapest. In 1987 the Countryside Com-

mission - the Government's official advisory body on countryside matters in England and Wales — carried out a review of forestry policy, in which it questioned the economics of subsidising extensive plantations with tax reliefs and grants at a time when improve-ments in husbandry were mak-

ing imports from other counties increasingly competitive.

It also argued that existing policy was out of step with growing concern over the environment and with the content of the conte ronment and with the demand for recreational use of the countryside. It called for a shift away from the mountainside plantations in favour of multiForestry as % of total land area West German



purpose lowland forests that would provide public amenities as well as commercial profit. One practical proposal that came out of the review was for a series of 12 "community forests" of 40 to 65 sq miles each to be created on the outskirts

of Britain's larger cities.

Plans for the first two,in south Staffordshire and south Tyne and Wear, were announced in July.

amounced in July.

The second prong of the strategy was the megaforest itself, it is intended to combine all the most desirable aspects cycling, water sports, adven-ture play areas, and nature The forest will not involve of a multi-purpose forest by

Source: Forestry Facts and Floures 1986/67, Forestry Commission

country, villages, lakes and farmland. Leisure opportuni-ties could include camping,

providing a recreational and tourism resource, enhancing the environment, providing opportunities for linked com-mercial developments, and effort between public and private sectors. The commission hopes farmers and landowners will be keen to back the scheme because it will offer contributing to the national timber supply.

The idea is to create not just opportunities to exploit the potential of land made reduna dense mass of woodland, but a blend of wooded areas, open

dant by EC food surpluses. The Midlands has been cho-sen for the megaforest because it is densely populated, yet lacks the national parks and coastline that other regions enjoy. The forest could also soak up the region's looming agricultural land surpluses stemming from the widespread

adoption of cereal farming in earlier years. Details of the possible locations for the forest will emerge today, although speculation over the last few months has centred on a re-es-tablishment of one of the "lost" forests of the Midlands: the Forest of Arden in Warwickshire, the Wyre Forest in Shropshire, Charnwood Forest in Leicestershire, Sherwood Forest in Nottinghamshire, or Rockingham Forest in Nor-

thamptonshire. Also emerging today will be details of how the scheme will be financed. A figure of £50m to 260m has been bandled about as the likely cost, but it is not yet clear how much may be available in the form of existing government grants.

Competition for the forest might be fierce. The outline proposal was warmly wel-comed in the Midlands, where local authorities see the foramenity as well as a counter to the issue of declining employ-

ment in rural areas.

The downside is that few involved in the decision-making process will live to see the result. The megaforest, consisting of slow-growing native broadleaf trees such as oak, ash, hazel and willow, is a for-est for the 21st century. It will take at least 50 years to create, and several generations to

launch revolt over running costs

MEMBERS OF the Financial Intermediaries, Managers and Brokers Regulatory Associa-tion believe they are close to victory in the first serious revolt by members of a self-regulatory organisation since the Financial Services Act came into force in April last year.

Although the Fimbra council's proposals for a now abandoned compulsory professional indemnity insurance scheme lies at the heart of the storm, the rebels make clear that their basic objection is to the way Fimbra has been run under Lord Elton.

Fimbra's annual meeting on December 13 will have four dif-ferent resolutions on its agenda, each of which would make the position of Lord Elton, Fimbra's chairman, and 16 members of the 21-member board untenable.

The most strongly worded of the resolutions directly calls on Lord Elton and the 16 to go. More than 1,750 of Fimbra's 8,000 members have signed the resolutions, and more than 2,500 members have delivered proxy votes, supporting a resolution calling on Lord Elton to

resign.

Mr Andrew Paddick of the

one of three professional associations for which Fimbra Is the self-regulatory organisa-tion, said: "I think it is virtually certain that the proxy votes will outnumber those of Fimbra members attending the meeting by three or four to

He continued: "Fimbra has gone from crisis to crisis over two years. This is just the cul-

mination of our frustrations." The trade associations believe that professional indemnity insurance should be obtained on the open market and not through a tied scheme. However, another complaint is that Fimbra's annual accounts expenses running well above

expenses running well above expected levels.

"The deficit of £3m has shocked Fimbra members," Mr Paddick said. "Fimbra has been acting more like a spend-thrift local authority with a bottomless purse.

The row is being closely watched by the Securities and Investments Board, the ultimate regulatory authority for the investments industry in the UK. The SIB has been trying to encourage a compromise over professional indemnity

THE

ONCE

AGAIN.

STANDARDS

APPOINTMENTS

Vickers managing director

- Sir Colin Chandler has been appointed a director of VICKERS, and will succeed Mr R.D. Taylor as managing director on January 1. Mr Taylor remains on the board until he retires after the annual meeting in April.
- Mr Bob Munton has been appointed to the board of SPEARHEAD EXHIBITIONS. He joined the group in 1981.
- Mr Philip P.C. Gregory has been appointed group finance director and a managing trustee of MUNICIPAL MUTUAL DESURANCE. He was group inance director of
- Mr Rowland Leigh, SAYOY HOTEL group company secretary has additionally been appointed finance
- MANUFACTURERS HANOVER CORPORATION has promoted the following vice president at the London office: Mr Clifford J.M. Fairley, offices and services group; Mr Malcolm Frost, personnel; Mr Philip L. McRee, UK representative office; and Mr George V. Talev, eastern

- Mr Roger Fouldes has been appointed sales and marketing rector of MONCASTER WIRE PRODUCTS, part of Ash &
- Lacy. He was group marketing director, J. & T. Group. ■ Mr Michael Collins has been appointed a director of ROYAL TRUST BANK.
- Mr G. Francom has been appointed chief engineer of the ASSOCIATED OFFICES TECHNICAL COMMITTEE.
- **NATIONAL & PROVINCIAL** BUILDING SOCIETY has appointed Mr Andrew Newell as risk manager. He was bond market manager.



technical director of Rechem International, has been elected chairman of the NATIONAL ASSOCIATION OF WASTE DISPOSAL CONTRACTORS.

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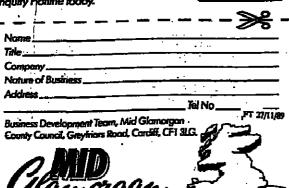
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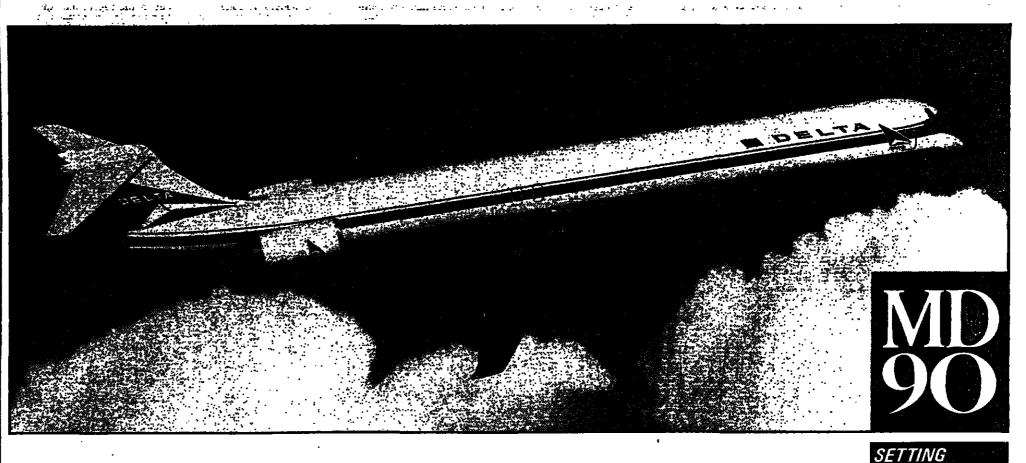
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UK NEWS

CBI sees low manufacturing output in 1990

By Peter Norman, Economics Correspondent

The following conferences are among those to be arranged by the Financial Times:

THE FOOD AND DRINK INDUSTRY IN EUROPE 28 & 29 November 1989 - London

FINANCIAL TIMES CONFERENCES

WORLD BANKING: EUROPE AFTER THE **DELORS REPORT** 30 November & 1 December 1989 - London

> WORLD TELECOMMUNICATIONS 4 & 5 December 1989 - London

FINANCIAL TIMES/PRICE WATERHOUSE CAPITAL MARKETS WORKSHOPS 4 - 6 December 1989; 21 - 23 March 1990; 16 - 18 May 1990; 4 - 6 July 1990 - London

WORLD PULP & PAPER 12 & 13 December 1989 - London

CREATING A EURO-WORKFORCE IN THE 90s 22 & 23 January 1990 - London

COMMERCIAL AVIATION IN THE ASIA-PACIFIC REGION TO THE END OF THE CENTURY AND BEYOND 12 & 13 February 1990 - Singapore

CABLE TELEVISION & SATELLITE BROADCASTING 28 February & 1 March 1990 - London

THE LONDON MOTOR CONFERENCE 5 March 1990 - London

COMPETITION, MERGERS, ACQUISITIONS AND ALLIANCES IN EUROPE 13 & 14 March 1990 - London

THE EUROPEAN WATER INDUSTRY 26 & 27 March 1990 - London

WORLD PHARMACEUTICALS CONFERENCE 26 & 27 March 1990 - London

> **VENTURE FORUM EUROPE '90** 4 - 6 April 1990 - Paris

All enquiries should be addressed to: Financial Times Conference Organisation 126 Jermyn Street, London SW1Y 4UJ Tel: 01-925 2323 (24-hour answering service) Telex: 27347 FT CONF G Fax: 01-925 2125

suffering a slowdown in demand for its products and can look forward to only low output growth between now and the end of 1991, according to the Confederation of British

The confederation's industrial trends survey for November has found that more companies are reporting that their order books are below normal than at any time since October

The organisation's latest two-year forecast, also published today, points to two years of slow overall economic growth, an end to the manufacturing industry's investment boom and flat company profits inflationary policy depresses

The CBI monthly industrial trends inquiry — which polled 1,250 companies between October 24 and November 15 found that export demand had weakened, with a marked increase in the proportion reporting that export order

books were below normal.

Commenting on the findings,
Mr David Wigglesworth, chairman of the CEI's economic situation committee, said: "Any

MANUFACTURING industry is further erosion in business confidence or a deterioration in export markets could bring us perilously close to recession."

More companies are reporting greater stock levels than at any time so far this year, point-ing to an accumulation of unsold goods.

The survey also suggests

increasing their output over the next four months. On balance, only 1 per cent of

companies expect to increase output between now and next March compared with 25 per cent a year ago. The survey shows that 34 per cent of manufacturers now

think their total order books are below normal, while only 17 per cent consider them above normal. The employers' organisation said intermediate and con-sumer goods industries had

reported order books "signifi-cantly below normal", with demand weakest for textiles. The capital goods industry, in contrast, says that its over-all orders are only slightly

below normal. However, capital goods mannfacturers have experienced weak demand in foreign mar-kets with large companies,

	•	. "					
EXTRACTS FROM THE CBI FORECAST							
% change	on previous y	ter 1990	1991				
GDP (output)	2.2	1.4	1.8				
of which manufacturing	4.6	1.3	2.3				
Fixed investment	5.3	0.0	0.5				
of which manufacturing	9.6	-0.1	0.2				
(annual average RPI)	7.8	6.3	4.7				
Exports: goods, services	5.2	5.8	3.3				
Imports: goods, services	9.3	1.1	1.9				
Current account (£bn)	-19.8	-13.8	-13.3				
Stockbullding (2bn)	4.4	-1.1	0.0				

employing more than 5,000 people, reporting significant declines in export demand. About the only bright spot in

the survey is itself a reflection of the slowdown in demand: fewer companies expect to raise factory gate prices in the next four months than was the

case a year ago. Meanwhile, in its latest quarterly economic forecast, the CBI gives a warning that fixed investment in Britain will stagnate next year while company profits will show no real

growth in either 1990 or 1991. The CBI has revised its expectations of economic growth for next year down to 1.4 per cent from the 2.3 per cent rate envisaged in its previof next year. However, the CBI expects them to fall from 15 per cent to 12 per cent between the end of March and the end of 1990. It also assumes a fur-ther easing of base rates in The CBI expects, too, that the Government will cut the standard rate of income tax to 24 per cent from 25 per cent in the 1991 Budget. It also expects a strong 5.8 per cent growth in the export of goods and ser-vices next year followed by 3.3 per cent growth in 1991. imports are forecast to grow by

said it expects growth of only 1.8 per cent in 1991.

The CBI's 1.4 per cent growth forecast for next year broadly matches the 1.25 per cent growth rate forecast in the Government's recent

ous forecast in August and has

However, the CBI is some-what more optimistic than the Government in projecting a decline in the annual rate of retail price inflation to 5.3 per cent by the fourth quarter of next year from 7.5 per cent in the current quarter. The CBI has forecast that retail price inflation will average just 4.7

per cent in 1991.
Analysts have interpreted the Autumn Statement as

Lloyds Bank forecasts cuts in tax implying that bank base rates will stay around their current 15 per cent level for most or all By Peter Norman.

Economics Correspondent

THE 1991 Budget is likely to see the British Government resulting its policy of tax reductions because it will be the last opportunity to influence the economy significantly the seconomy significantly the seconomy significantly the seconomy significantly the seconomy significantly significantly the seconomy significantly significantly the seconomy significantly si before the next election, according to Lloyds Bank.
If the bank's latest UK Eco-

nomic Outlook, Mr John Young, Lloyds' UK economic adviser, said the economy would hover on the brink of recession next year with growth decelerating to 1.6 per

However, the outlook for inflation will remain poor, Mr Young added, with 5 per cent inflation becoming increasingly regarded as the norm for the UK economy in the early 1990s. The bank said the Autumn Statement forecasts of a decline in the current ac-count balance of payments def-icit to £15hn next year from 220bn in 1989 were realistic. It said a further slow improve-ment to a deficit of £12bu in 1991 was possible although the deficit was likely to rise again afterwards as domestic

The CBI expects hardly any growth in business investment in the next two years.

only 1.1 per cent in 1990 and 1.9 per cent the following year.

The balance of payments deficit on current account is expected to fall to £13.8hn next

year from a forecast £19.8bn this year. However, the CBI

has projected a high current-account deficit of £13.3bn for

1991, reflecting expected slack-ening of world trade growth

and increased consumer demand in Britain after the

income tax cut it expects in

Fuel and energy companies fail to settle deal

By Charles Leadbeater

BRITISH COAL and the electricity generating companies have yet to agree on a three-year coal supply con-tract, according to senior exec-

utives at the corporation.

The already tense relations between British Coal and National Power and Power-National Power and Power-Gen, the two generating com-panies to be created by the pri-vatisation of the electricity supply industry, have been further strained by comments last week by Mr John Baker, National Power's chief execu-tive designate that a threetive-designate, that a three-year deal had been drawn up that would freeze domestic electricity prices over the next

A senior executive at British Coal said Mr Baker's comments were premature. Within the outline structure of the deal, many details, including prices, remained to be settled.

British Coal will develop land left by pit closures

By Charles Leadbeater, Industrial Editor

move into property develop-ment to exploit the large vacant sites left by the pit closure programme it has con-ducted since the end of the 1984-85 miners strike.

The corporation's diversification into property development confirms a growing trend among large companies in industrial sectors that have contracted and restructured in

British Rail is involved in big developments at several central London stations. Associated British Ports, the country's largest port operator, earns about half its profits from property, while Sea Containers, the second-largest operator, last week announced a £200m development at Harwich docks and a £100m devel-

British Coal has long bene-fited from property disposals.

BRITISH Coal is planning to All but 1,000 of the stock of 75,000 houses which it had at the end of the strike have been sold off. However, the move into property development marks a change of gear.

A senior corporation execu-tive said: "We would not reach ABP's position of getting half our profits from property, but we hope to significantly improve our income from prop-

erty."
British Coal's plans are being drawn up by Mr David Kendall, former chief executive and managing director of BP Oil, who joined the corporation in March as deputy chairman. Under Mr Kendall's plans, the corporation would provide the land as its contribution to joint ventures with agents or developers, who would provide the finance for the develop-ment. The corporation would eventually benefit from rental

Power sell-off seen as pushing price up 50%

By Maurice Samuelson

THE LONG-TERM effect of privatising the electricity industry will be to push prices about 50 per cent higher than if privatisation were not to take place, two London Business School Economists pre-

That is because of the higher rates of return on capital that will have to be carned by the privatised successors of the

Their conclusion contrasts with assurances by Mr Cecil Parkinson, as Secretary for Energy, that competition in power generation would reduce prices in the long term. It will be unwelcome to Mr John Wakeham, Mr Parkinson's successor, who is trying to overcome doubts about the progress of the privatisation. Fiscal Studies, 180-182 Tottenham Court Rd., London

Advisers raise doubt over privatisation timetable

By Maurice Samuelson

THE GOVERNMENT is being urged to revise its timetable for selling the various parts of the electricity industry to ensure that its privatisation is completed before the next Gen-eral Election.

Under the present timetable, the two Scottish hoards are due to be sold next Angust, the 12 distribution companies of England and Wales two months later, and the two big generating companies, National Power and PowerGen, in the arrive of 1001

in the spring of 1991. The Department of Energy yesterday said there was "no question" of abandoning that etable. However, Kleinwort Benson, the Government's chief advisers, are said to be

examining a number of different options over timing.

The generating companies, while insisting that they will comply with the official timetable, are understood to favour

being sold simultaneously with the rest of the industry. National Power said: "Providing the conditions are right, we would be enthusiastic to be privatised as soon as possible. But it is for the Government to

According to a City analyst, however, the generators wanted to be sold at the same time as the distributors because they feared "falling off the back end" in the queue for investors' funds.
The latest estimates suggest

that the entire industry may be valued at about only £16bn, nearly half the amount

suggested two years ago.

If it can be vested on March
31, the present target date, the
entire industry could be sold together six months later, analysts say. However, the distribution companies may fear they would be subserged by a simultaneous sale.

If you are a professional, you may well be interested in some of these events.

Month	Period	CONGRESSES AND EVENTS IN 1st HALF OF 1990	Estimated City Attendance
January	13 to 17	V International Congress of Physical Education	
	14 to 19	XII International Congress of Electromyography and Clinical Neurophysiology	
	30 to 8 February	VIII General Assembly World Lutheran Federation	Andrew States
February	17 to 21	X International Symposium on Facial Surgery	
	18 to 22	PAABS - VI Congress Pon-American Association of Blochemical Societies	
March	6 to 8	i International Congress on Pediatric Nutrition	
April	18 to 21	Il Latin American Symposium on Neurological Surgery on the ear and skull base	
	21 to 4 May	International Congress on Irrigation and Drainage	
	25 to 28	IV International Cataract and Intraocular Lens Symposium	
	29 to 4 May	International Conference on Transport Properties of Superconductors	
May	6 to 10	Il Congress of the Latin American Association of Immunology	
	14 to 17	XXII World Congress of International Road Union - IRU	
	14 to 18	Il Triomus - Triennial Museum Meeting of Rio de Janeiro	
June	16 to 21	L.E.S. International Conference - Licensing Executives Society	
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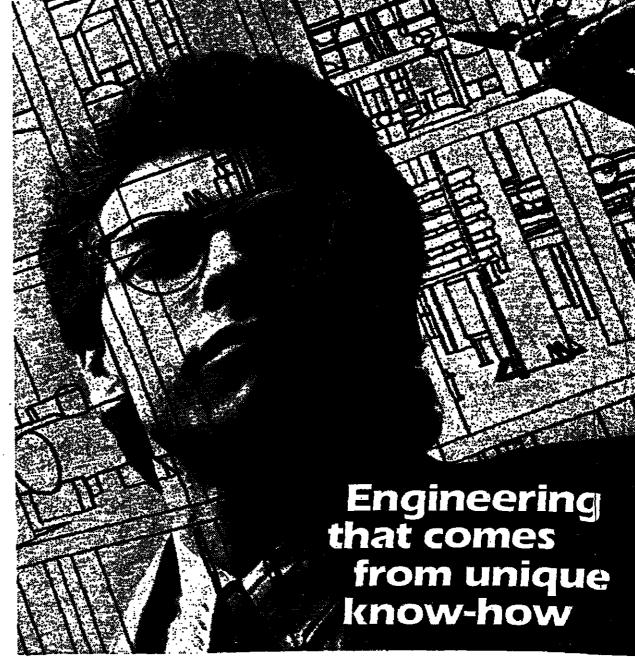
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stunning backdrop of

congresses,

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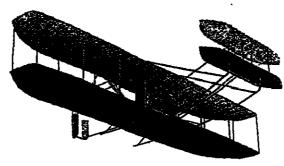


ENGINEERING

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1903. ORVILLE WRIGHT DEFIES GRAVITY. 1989. PORSCHE DEFIES ORVILLE WRIGHT.



On a cold December day in 1903, Orville Wright discovered something that has kept Porsche engineers exercised for years.

Namely, that if you drive into the wind at speed the air rushing towards the vehicle will force it to lift off the ground.

Which is fine if you want to be the first man on earth to experience powered flight. But annoying if you are obsessed with

making what are undoubtedly the world's most revered performance cars. Naturally, over the years, Porsche engin-

Naturally, over the years, Forsche engineers have not allowed something as trivial as the elemental forces of nature to deter them.

Indeed, they have produced any number

of ingenious ways of ensuring that all Porsches stay well and truly glued to the road. Although none are as sophisticated as the

Consider, first, the enormity of its task.
Underneath the famous 944 bonnet of the S2 is a brand new engine.

'ground-effect' technology on Porsche's 944 S2.

A 3-0-litre, 211 brake horsepower, 16-valve

Or, to put it in context, it is the most powerful normally-aspirated engine of its type in the world.

Amazingly, the enormous power of the

S2 is produced by just four cylinders. Albeit, Porsche-designed cylinders.

Between them, they are perfectly capable

of taking the S2 from 0 to 62.5 in 7.1 seconds and to a top speed of 149 mph.* Although at Porsche we do not consider

speed to be performance.

Balance. Control. Stability. These are the

dull words that excite Porsche engineers.

And these are the words that inspired the 'ground-effect' technology on the S2.

This advanced air management system operates in four different areas of the car. The most important being the least obvious.

The underfloor of the S2 incorporates a single smoothed-out panel, allowing the air to flow uninterrupted from the front of the car to the rear.

Meanwhile, the sleek new nose section redirects much of the air that normally finds its way under the car, thus reducing turbulence.

Steering, road holding and braking are all enhanced dramatically as a result.

The rear spoiler deflects air away from the back of the car, which has the effect of reducing lift as the car reaches high speeds. And not content with one spoiler at the back, the 944 S2 has another, underneath the bumper. As the air flows over it, the downforce adds to the stability of the rear end.

(Autocar & Motor recently heralded the S2 as 'the best handling car in Britain' Now you know why.)

However, increased control isn't all that's ew on the S2.

Every aspect of the car's design has been looked at. Again. And again. And again. (Obsession is a very harsh master.)

The result is a car which has practically been re-designed.

For total stability, the Transaxle drive line system connects the engine to a gearbox in the rear of the car, giving virtually perfect weight distribution of 50% front, 50% rear.

(We told you our engineers liked balance.)
Also, the S2 is equipped with a catalytic converter, something it has in common with all Porsche's new models in this country. Indeed, according to a research study carried out by TÜV Bayern of West Germany, the

new 944 S2 has the lowest carbon monoxide emission of any European car.

944 82

And naturally, Porsche engineers have made sure that none of the power or performance has been lost.

But perhaps the most remarkable development on the new S2 is the exceptional torque at low revs.

You'll notice it most when you're driving the 944 S2 in town.

Or winding up an Alpine pass (where you will also have the chance to appreciate the S2's new suspension and specially-developed ABS braking system).

Either way, you'll definitely notice it.

Because, as with any function on any Porsche, changes are only made if they make the drive more exhilarating and, ultimately, more satisfying.

Driving in its purest form, Dr. Porsche called it when he built his first car, the original 356. And no one has come up with a better description yet.

If you would like to know more about the 944 S2 or experience it yourself, contact your local Official Porsche Centre, listed in Yellow Pages, and arrange a test drive.

For more information on the 944 Series, Diplomatic Sales or tax exempt personal exports, contact Customer Relations, Porsche Cars Great Britain Limited, Freepost, Reading RC1 1BR. Tel: 0734 323959. Fax: 0734 303713. Telex: 846465.

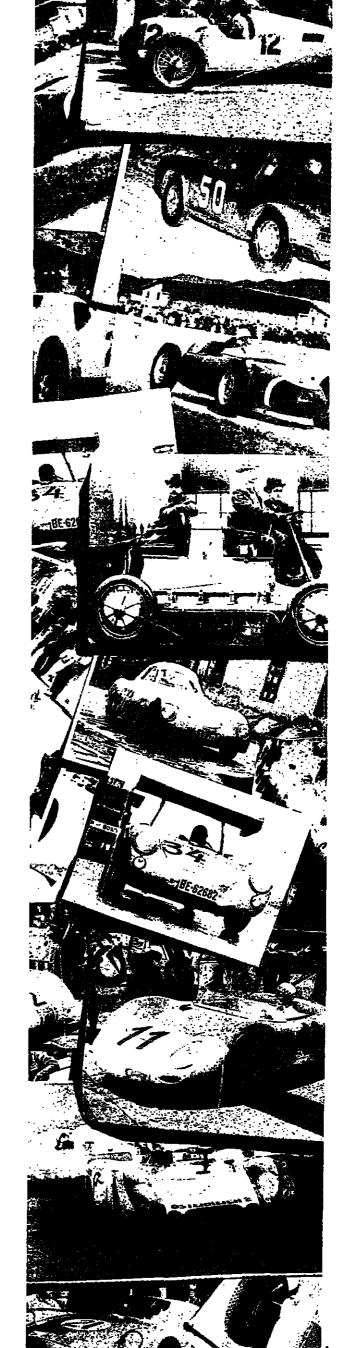
Porsche 944 S2 prices start at £32,024 as at 1st September 1989. *Manufacturer's figures.

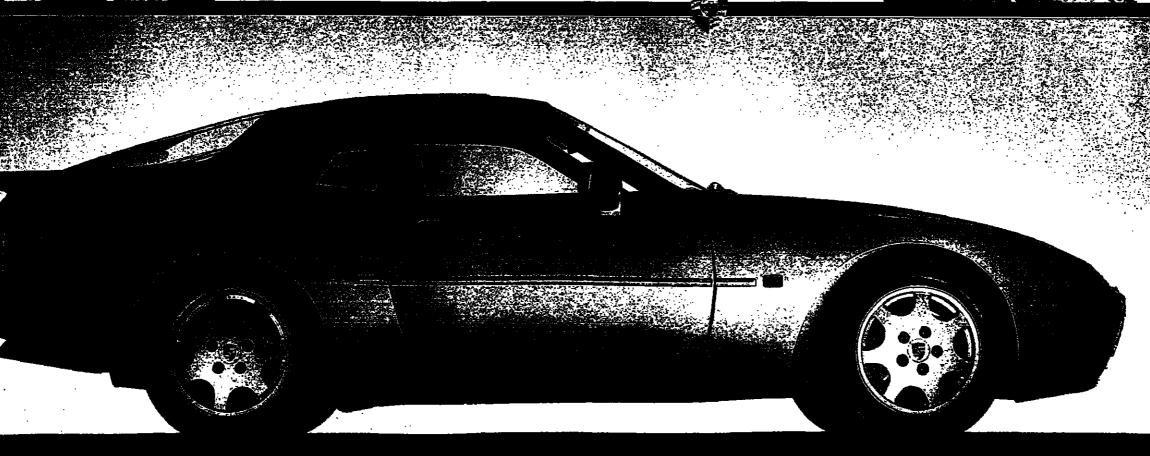
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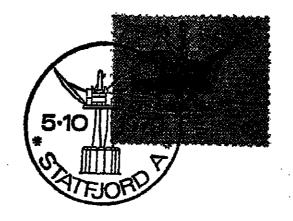
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PORSCHE

DRIVING IN ITS PUREST FORM







One of the world's biggest oilfields is 10 years old. Happy birthday!

It is now ten years since the Norwegian-British Statfjord field started producing oil and gas. So far nearly 1,700 million barrels of oil have been produced, and 18,000 million cubic metres of gas have been sold to users in the United Kingdom and the Continent.

The operator for the field is the Norwegian state oil company Statoil. Operator for exploration, development and operations up to 1 January 1987 was Mobil.

Statfjord oil is a light, kerosene-like oil with a low sulphur and metal content. Most refineries use it unmixed, and it yields a full range of good quality, low-sulphur products. Statfjord oil is reckoned as the best of the North sea oil as fuel, and has very good environmental specifications.

Statfjord A, the oldest of the platforms, is a real pioneer in the history of the North Sea oil production. The decision to develop the field was taken in 1974, only a few months after the giant reservoir was proven and while the technology of oil production in the northern part of the North Sea was still in its infancy.

On 24 November 1979 the platform was ready for start-up, after a development that demanded the highest degree of engineering sophistication and practical construction expertise from everyone involved. About 50,000 people from more than 120 Nor-

wegian and foreign companies had a part in the development.

The oil produced from the Statfjord field is tanker-loaded from loading buoys in the open sea. In the early years all the oil was shipped to ports in northwest Europe, but after Statoil built the crude oil terminal at Mongstad in Western Norway, Statfjord oil has a world-wide market.

The gas is transported by pipeline to the Northern Leg Gas Pipeline (NLGP) on the British side, and the Statpipe and Norpipe Gas Trasportation systems to Emden in West Germany.

Sales income from oil and gas so far amounts to NOK 300,000 million, or £27,000 million. Half of this is direct revenue for the two countries' exchequers.

It will be many years yet before the Statfjord field is empty. Production prognoses up to year 2010 indicates that another 1,300 million barrels of oil and 55,000 million cubic metres of gas can be produced. Improved oil recovery and alternative use of the installations can lead to prolonged operation of the field.

Statfjord will be a major supplier of oil and gas to the British market for many years to come.

STATOIL

£27,000 million-worth of oil and gas - and we're still only half-way!

The Statfjord Group

NORWEGIAN SECTOR: STATOIL, MOBIL, ESSO, SHELL, CONOCO, SAGA PETROLEUM, AMOCO, ENTERPRISE, AMERADA HESS, BRITISH SECTOR: CONOCO, BRITOIL, CHEVRON.

DIARY DATES

WORLD INDUSTRIAL **REVIEW**

The Financial Times proposes to publish this survey on:

Monday, 8th January, 1990

For a full editorial synopsis and advertisement details, please contact:

BRIAN HERON Regional Manager

on 061 834 9381 (telex 666813) (fax 061 832 9248)

or write to him at:

Financial Times Alexandra Buildings, Queen Street, **Manchester M2 5HT**

FINANCIAL

National Wine Critisme Inc.
Stensie & McGesen
Tee, Holgs,
Vibroplant
Wardell Roberts
DVVDEND & INTEREST PAYMENTSAmdebl Corp. 25cts
Blac Circle Inde. 3.5p
Clerkeon (Norses) 2.5p
Consolidated Freightsays 26.5cts
Early's of Winesy 25.3Tbp
Friendly Hobis. 75 Gev. Rd. Prf 1.5p
Green (Ernest) & Pirms 4p
Hopidinese Hotels 19
Disensett Benson 5.3p
Lloyal Chemists. 1.55p
Manniers (John) 2.65p
Guter 2.8p

BOARD Michings-Phasis: Bennett & Fountain Cleaprint Fairline Bosts. Leeds Grp. Northern American Tat. Radio City (Sound of Mer SAC Int. Banderson Bectronia Tels & 1 tels

Senderson Tate & Lyle Young (H.) Interfere; Affled-Lyons Argyli Grp. Chemoxy Int. Bigs Grp. Hambros Monits Inv. Tut. MEC Corp. NSM

NSM Verson Ind. DIVIDEND & INTEREST PAYMENTS-Bossnore lati. 1.7p

FAI insurances 4cts
WEDNESDAY NOVEMBER 29
COMPANY MEETINGSAttroods, The PickerHoge, State Common
Road, Ruters, Sucka, 12.00
Savage Grp., Correll Mill, Park Street, SLAfbars, Harra., 10.15
TOW, Derry's Cross, Pyrsouth 2.00
BOARD MEETINGSPlants;
Base
Dundee & London Inv. Tst.
Heriscol
Krift Bare
Metitinust
Purinary
Perpetual
TSS Channel Island
Interior,
GPS Inde,
Caladonia Atva.,
Deviation Int.,
Poster (John)

Trimocy Vosper Thorsycroft DIVIDEND & NITEMEST PAYMENTS-AS. Electronics Procs. 13.5c Allied Insurance Brokers 19 BLP Grp. 1.5p Bank of Montreel 53cts Broken Hill Proprietary Co 17.5cts Creation & Communication Property 3.75p Cassins Property 3.75p Cassins Property 3.75p

THURSDAY NOVEMBER 30
COMPANY MEETINGSDescor, Goldhall, Bath, 12,00
Microffine Reprographics, Ferners & Fletchers Livery Hell, Cloth Street, E.C. 12,00
Noves, Minister Houses, Arthur Street, E.C. 12,00
BOARD MEETINGSPlusics,
Lyone Irish Hidgs.
MEPC
Royal Bank of Scotland Royal Bank of Scot United Drug Intertine;

Hydro-Cushec 18% Ln. 2011 7.5pc. EA Intl. 0.30p INSTEM to Johrmon Metthey Deb. 85/60. 3¹cpc. Jove Inv. Tet. 3.45p Relineart Benech Lonedale 3811.61 De. Ser.2 8511.61 Leisure Inst. 7% Cov. Bard Pri. (MAI) DAYDEND & INTEREST PAYMENTS-Adscene 3.8750 Allied Lyons 5-1% Prt. 1.9250 D. 71-% Prt. 2.8250 Almagamated Fin, Inva. 0.4p Armitigge Bros. 71-2% 1st. Mige Dab. 85/80, 3-1-pc Automated Security Hidgs. 8% Cov. Red Prt. 30

Do. Ser 2 8511.51 Leisure timen. 79. Cow. Red Pri. (186/53) 3.5p Leumi Int. Invs. NV. Gtd. Fitg. Rate Na. Nov. 1889 350.2 Lloyde Str. Nac(Series 2) C252.24 London & Sert. Gsp. 10½ % Une Ln. 1893 54 pt. Marylebone Estates Co. 1.5p 3p Do. Criv. Uns. Ln. 90/95, 4p

39
Do. Cirv. Urss. Lr., 90/98. 4p
BMSS 1.875p
STR Nylex 10xts
Bank of Scotland (Governor & Co of) 91s %
Non-Cure hard Pri 4.625p
Do. Und Var Rate Nts., \$228.63
Benk of Tokyo 17780,14
Benkers Inv. Tet. 0.55p
Do. 3.51g % Pri. 1.75p
Barker (Charles) 1.3p
Bradford & Bingley Bidg. Soc. Pitg. Rate Nts., 1984 C350.5
British Fittings 1.25p
Brytant Gpt. 87 Pri. 2.8p
Caixa Geral De Depositios 9505.18
Canning (NJ.) 71g % Urss Ln. 88993. 33spc.
Carparo Inds., 1.3p
Do. 6% Pri. 4.2pc.
Carparo Inds., 1.3p
Do. 6% Pri. 4.2pc.
Captaro Inds., 1.3p
Coster Alker Gift Inc., Fd. 30p
Chate Alare Gift Inc., Fd. 30p
Charles Bidng. 872.82
Citygrove 7.79% Circ. Red. Pri. 3.870p
Construction & Ind., Tet. 1.925p
Coopper (James) PLC 9% Une Lin. 94/99
4 lpgc.
Delver Pacicacing Q.45p

Shor.

Expediar Leleure 3,872p

Fith Throgmorium Co. 7,25% Cirv. Uns. Lr.
2003. 3,825pc.

First Chicago Oversees Finance \$222,24

Forward Tech Inde. 156

Fundinvest 5,55p

General Mining Union Corp. 220cts

Oo. 8,5% Var Comp. Cirv. Prt. 225,25cts

Oo. Bebs. 171,25cts

Gestumer Hidgs. 10% Cirv. Uns. Ln. 90/95,

5pc.

Jape.
31gpc.
31gpc.
Guidehouse Grp. 0.4p
Handing Grp. 1.4p
Handing Grp. 1.7p
Handing Grp. 1.7p
Handing Grp. 1.7p
Hill Sursues Grp. Perp Fitg Rate Rts. 9605.16
Hunting 8.25% Grv. Pri. 4.125p

FRIDAY DECEMBER 1
COMPANY METINGSlied London Properties, Inn On The Park,
Hamilton Picco, Park Lane, W., 12.00
listed Liames, Holdey Inn, Peter Sheet,
Manchester, 12.00 Pochins, Brooks Lane, Middlewich, Cheshire, 12.00 BOARD MEETINGS-Sank of Nova Scotla

Benk of Normalisterium;
Interium;
Chloride Grp.
Mauntview Estates
Reliance Security Grp.
Smich (Jatmes) Estates
DY/DEND 2 enterest
DY/DEND 2 enterest
AMAX Inc. 20ccus
Agricultural Mags. Carp. 41₂ % Data 61/91. Agricultural Mage. Corp. 41/2% Data. \$1/\$1.
24.pg.
American Brands Inc. 68cts
American General Corp. 37.5cts
Assarce Octo
Audit & General Bap
Austin Rend 3p
Do. "A" Ord. Non. Vig. 3p
B.A.T. Inda. Filig Rate Capital Nis 86/90.
6.88690.

State Capital 6.988pc, State Capital 6.988pc, State Cap. 24p Cater Allon Hidge, 5% Pri. 1.78p Do. 4.29⁵ 2nd Pri. 2.1p Dares Ests. 5 spc. Doi: 1.39 Edinburgh Inv. The 2.55 E

London & Buro, Grp. 10½% Une Lh. 1983

Sup.

Sup.

Marylebone Estates Co. 1.50

Metates C.250

M Dares Ests. 5-ppc.
Dets. 3-pp
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Edinburgh Inv. Tet, 2.5p
Edinburgh Inv. Tet, 2.5p
Edinburgh Inv. Tet, 2.5p
Edinburgh Inv. Tet, 1.4575p
General Cora Inv. Tet, 4-1₂% Prl. 1.575p
Da. 5% Prl. 1.75p
Da. 5% Prl. 1.75p
Da. 5% Prl. 1.75p
Grost Portland Estates 4-1 pc.
Heistead (Jermes) Grp. 5.75p
Haumbros Inv. Tet, 1.225p
Harris (Phillip) Hélage. 2625p
Do. 5% "B" Prl. 2.8p
Heatth Images 6.5% Crv. Subord Debs 1/12/98
3-1 pc.
D. 6.5% Crv. Subord Sers. B Debs. 1/12/98
3-1 pc.
H-Tec Scores 1.5p

Tarmec 3p Thorntons 1.65p Throgmotions Tat. 12 & % Deb. 2010 6 & pc. Thurger Barden 0.85p iffingworth Morris (Saltain inco 25cts ingersoll-Rand Co. 30cts Intl. Buss. Cornerss. 1.50
Richiseas Met. Council 5.8%
2 Kiefment Charter Inv. Tet. 29
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Lew Pob. 42 % Dob. 24 pc.
Lew Pob. 42 % Dob. 24 pc.
Lew Pob. 42 % Dob. 24 pc.
Lew Leiby Water 1.40
Do. 3.5% Ord. 1.750
Do. 23% Prt. 1.60p
Legal & Ganeral 5.20
Lowis, Lichol Permailip. 1.750
Do. 71/2 % Prt. 2.625p
Liliesthell 1.250
Lineal Grp. 3.1p
Lister & Co. 5% Prt. 1.75p
Do. 4% Dob. Red. 2pc.
Lombard North Central 1.75p
Do. 4% Dob. Red. 2pc.
Lombard North Central 1.75p
Do. 6% Prt. 2.1p
Lenden County 3% Cons. 1920 11/2pc.
Do. 21/2 % 1920 11/2pc.
M & G Intl. Income Fd. 1.92p
Meggitt 1.1p
Metal Closures Grp. 2.35p
Microfilm Reprographics 3.375p
Monta inv. 15t. 11% Dob. 2012 51/2pc.
Montanto 5% Gal. In. 92/97. 24/2pc.
Do. 44 Ged. Ln. 82/97. 34/2pc.
Do. 44 Ged. Ln. 82/97. 34/2pc.
CMG AB 1897 8/3pc
Chtaric & Couloce Railway Co. 5% Perm.
Do. 5% Cap. 3pc.
Portennous Water Co. 1.75p
Red Intl. 4/2 % Prt. 1.575p
Do. 51% Prt. 2.5p
Red Intl. 4/2 % Prt. 1.575p
Do. 51% Prt. 1.805p
Scotten Augus. 6 Tet. 1.7p
Scottlath Teterision 5p
Scottlath Teteri

DO. 3.5% Ord. 1.75p
Southempton Harbour Board 614 Rad 85/50.
3-1 pc.
State Bk. of Now South Wales 13 % Nhs.
1983 613 pc.
Sun Alliance Grp. 4.5p
TR Australia Inv. Tsi. 5% Pri. 1.75p
TR Trustralia Inv. Tsi. 5% Pri. 1.75p
USLIFE Corp. 37cts
Ustate Television 3.5p
Vivat 2.45p
Watney, Mann 6 Traman Hidgs, 4% Red.
Dab. 85/63. 2 1 pc.
Do. 8 2 % Red. Deb. 87/60. 3 1 pc.
Whitheread 6 Co. 8 % Red. Deb. 87/62.
3 1 pc.
Do. 5 1 % Red. Deb. 88/61 3 1 pc.
Wright Lichty (Wasving) 1.575p
Young 8 Co's Brawery 612 Int. Migs. Deb.
64/68. 3 1 pc.

SATURDAY DECEMBER 2 DIVIDEND & SITEMEST PAYMENTS-BAT Inds. 12¹s, % Uns. Lp. 2003/08. 6¹spc. Enterprise Oni 10¹s, % Uns. Lp. 2013 6³spc.

Trade fairs and exhibitions: UK

November 26-December 2 International Building and Construction Exhibition -INTERBUILD (01-496 1951) NEC, Birmingham

November 28-December 1 World Travel Market (01-948 9900)

Royal Smithfield Show and Agricultural Machinery Exhibi-

tion (01-235 0315) Rarls Court December 5-7 International Technology in Mining Symposium and Exhi-bition (0923 778311)

Energy, Safety, Security and Handling Exhibition (0296 484881) County Cricket Ground, Bir-mingham

Overseas exhibitions

November 27-30 Money Exhibition (01-930 3881) November 30-December 8 Autumn Fair (01-486 1951) Bahrain

November 28-December 2 International Shipping and Shipbuilding Conference and Exhibition (0206 45121)

December 1-11

Paris Boat Show (01-225 5566) Business Fair - REO NEGOCIO

(01-499 0877) December 12-15 International Telecommunica-tions Exhibition - EUROCOMM

Business and management conferences

November 28-29 FT Conferences: The food and drink industry in Europe Hotel Inter-Continental,

November 28-29 LLR. Industrial: Waste management in a green environment - developing technologies and enhancing UK markets for recyclable materials (01-287

2589) Royal Aeronautical Society, London November 28-30
DHA: "You won't do it anyway" - international total quality conference (0990 28712)
London

European Study Conferences: Employee_share ownership plans - The road to wider share ownership (0536 204224) The Churchill Hotel, London

November 29-30 The Textile Institute: The glo-

balisation of textiles (061-834 Ramada Renaissance Hotel. November 30-December 1
FT Conferences: World Bank-

ing: Europe after the Delors report (01-925 2323) Hotel Inter-Continental,Lon-

November 80 CBI Conferences: Defence pronent: Join the team (01-379

November 30-December 1 Forum Europe: Partners in the Transatlantic economy (Brussels: (32.2) 771 98 90)

Royal Institute of International Affairs/The British Institute of Energy Economics/The Inter-national Association for Energy Economics: Environ-mental challenges: The energy response (01-930 2233)

Chatham Bouse, London December 4-5 FT Conferences: World Telecommunications (01-925 2323) Hotel Inter-Continental,

Ernst & Young: Tax investiga-tions - a practical approach (01-222 5000) Queen Elizabeth II Confer-

ence Centre, London Fibex: Doing business in Spain - a comprehensive guide to cor-porate strategy (re-run) (01-489

Le Meridian Hotel, Picca-The Henley Centre: Consumer

ties in the UK transportation infrastructure - what's in it for

convergence in Europe (01-353 The Brewery, London December 7-8 LLR.Idustrial: Profit opportuni-

the contractor and financier? (01-434 0273) Kensington Palace Hotel,

December 8
The Strategic Planning Society: Strategy – Global or European? (01-636 7737)
London, SW1

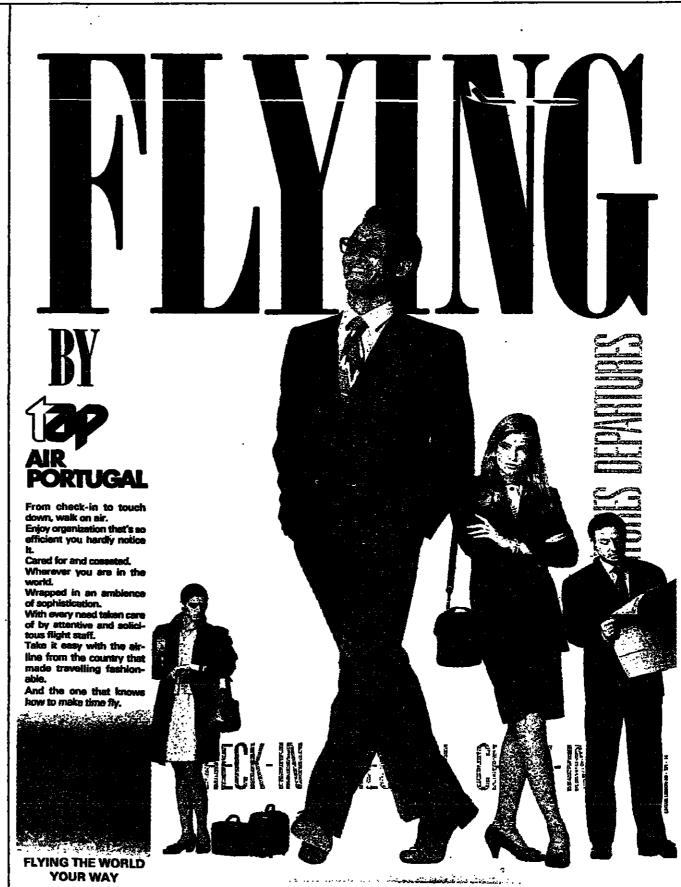
December 11-12
Frost & Sullivan: Supervising personnel in a professional and technical environment (the Tritt method) (01-730 3438)
London

IGS (UK): Property develop-ments and Government grants in the inner cities (01-863 6479) Cafe Royal, London Decem-

ber 13 December 13-14 The Strathclyde Institute: International conference on strategic manufacturing (041-552 5821) Gleneagles Hotel, Auchter-







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REPUBLIQUE DU ZAIRE DEPARTEMENT DU COMMERCE EXTERIEUR. SOCIETE NATIONALE DE TRADING

APPEL D'OFFRES INTERNATIONAL N°DTR/AC-FIN/108/89 POUR LA FOURNITURE

frontale et 2 grues hydrauliques automotrices tout terrain destinés à l'OFFICE NATIONAL DE TRANSPORT (ONATRA). Ce dernier a demandé à l'I.D.A. (INTERNATIONAL DEVELOPMENT ASSOCIATION) un crédit en vue de financer le ler projet de réhabilitation du secteur des transports au Zaîre (Volet ONATRA) Les sommes accordées au titre de ce crédit seront utilisées notau

2. DESCRIPTION DES FOURNITURES.

LOT 1: 2 chargeurs à gremes

LOT 2: 4 tracteurs agricoles

LOT 3: 4 remurques 40 tonnes à cargo général

LOT 5: 2 grues hydrauliques automotrices tout terrain

Le marché est subdivisé en 5 lots distincts. Le soumissionnaire est libre d'offrir un ou l'ensemble des lots, chaque lot devant être proposé

3. RETRAIT DU DOSSIER D'APPEL D'OFFRES. Le dossier complet d'appel d'offres peut être obtenu contre remise d'un chèque barré d'un montant de 100.000 Zaires ou 10.000 francs belges, à partir du 16 octobre 1989 aux adresses suivantes:

BUILDING C.C.I.Z. - 222 MIVEAU - B.P. 15.711 - KINSHASA/I TELEPHONE: 30.592 - 30.598 - 32.304 - TELEX: 21.634 REPUBLIQUE DU ZAIRE

AGENCE DE BRUXELLES 15, RUE DE LA LOI, BOITE 052 B-1040 BRUXELLES TELEPHONE: 02/230.37.97 - TELEX: 26.444 TELEFAX: 02/230.47.62 ROYAUME DE BELGIQUE

3. SOCIETE NATIONALE DE TRADING - "SONATRAD" AGENCE DE LUBUMBASHI 225, AVENUE MSIRI - B.P. 1573 - LUBUMBASHI TELEPHONE: 22.53.71 - 22.52.49

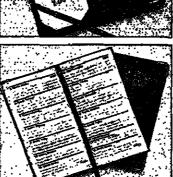
La participation à la concurrence est ouverte à égalité de conditions à tout Fournisseur ressortissant des pays membres de la BIRD y compris la Suisse, Taiwan, Chine.

5. REMISE ET OUVERTURE DES OFFRES.

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"LA SOCIETE NATIONALE DE TRADING "SONATRAD"





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				70.00	16.83	14.50	15.63	15.28		
11		Visitet, triack leather, No. Pt. + PC Regist, burgundy feather, No. PE	21.79	20'00	70.50	10.50	15.85	828	13.60	

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Baphry De

CONSTRUCTION CONTRACTS

Laing builds Bradford courts

LAING has landed the £14.4m contract to build Bradford's new Combined Courts Centre. The Property Services Agency has awarded the con-tract on a develop and construct basis - an arrangement pioneered at Middlesbrough

where Laing are working on a

similar project.

The new Combined Courts Centre at Bradford will be built off Vicar Lane, on the site of the old Exchange Station. Constructed on four levels, it will house eight Crown and two County Courts. Construction will involve an insitu concrete frame faced with York stone quarried at Huddersfield, chosen to blend with the sur-rounding buildings.Completion is scheduled for spring 1992.
Laing has won an order worth around £13m from the West Midlands Regional Health

Authority for a maternity services building at the East Birmingham General Hospital. The project involves construction of a two-storey reinforced concrete structure within the existing hospital. Facilities include a two-storey obstetrics block incorporating a neo-natal intensive care unit, a two-storey gynaecology/pae-diatric block, plus a single-storey twin theatre block and two-storey extension to pathology block.

ble for work on the existing pathology and pharmacy departments, and a two-storey porter's lodge including shop and staff changing facility. Completion is scheduled for One of Weston-super-Mare's landmarks is about to be given

a new lease of life. Laing has been selected by Woodspring District Council to carry out a £5:3m design and construct contract to extend and refurbish the town's famous Winter Gardens Pavilion. The Council's intention is to

improve conference and exhibi-tion facilities in the West

when complete in June 1991 will contain a multi-purpose hall, function rooms and a new bar. An hydraulic stage which can be raised and lowered to various heights is a key fea-

in the existing building the Laing will also be responsihox office is to be relocated next to the relustated original entrance adjacent to the ball-room. A new centralised bar will be created in the current cloakroom and the existing foyer transformed into a bar lounge. The ballroom is to have a new sprung floor.

The extension has been designed to both blend with the existing building and to complement the development proposed for the adjacent site.

It will have a steel frame with rendered outer walls and powder coated aluminium glaz-ing. The Pavilion itself will be Country resort. Buildings con-cleaned and repaired and a taining the Startight Room and new double glazed cartain wall Pergola Bar will be replaced by system installed.

First canal aqueduct for over 50 years

two stages during the winters of 89/90 and 90/91 to avoid dis-

ruption of canal traffic during

the busy summer tourist sea-son. Both the road and canal

should be open for traffic in

EDMUND NUTTALL has been awarded a £4m contract by Milton Keynes Development Cor-poration to build the first new aqueduct on the Grand Union. Canal for over half a century. The aqueduct, a 150 metre long three-span structure with a prestressed concrete trough deck, forms a major part of the contract to construct a further 1.3km section of city road, Grafton Street, through Stone-bridge to the Newport Road at

IN BRIEF....

BOWMER & KIRKLAND has

been awarded a £6.25m contract to build a hotel at Mick-

for another Derby-based company, Minitech, which will occupy a suite of offices in the

completed development. The

hotel will have 78 air-condi-

rooms plus six suites on three

floors. The ground floor fea-

tures reception, shops, travel agents, coffee lounge, hair salon, bars and administration

area; with a 120-seat restaurant, and a coffee lounge off

the central atrium. A leisure centre includes an indoor pool and jacuzzi with exercise gym, saunas and sunbeds. The air-

conditioned conference suite has two 60-seat conference

the Iron Trunk Aqueduct

Raine subsidiary HALL & TAWSE GROUP has contracts totalling £20m. Among them is a £2.5m order for the internal fit out of a branch of Boots at the newly-constructed Bon Acord Shopping Centre in Aberdeen The Centre is the largest retail development in the city. The £60m project has been built entirely by Hall & Tawse for Bredero Projects. Work has started on a £3.7m contract to build a bonded distillery warehouse for Macal-

M.J. GLEESON GROUP is to redevelop Whittle Dene water treatment works, Northumberbead Water Co. Some 15 miles from Newcastle, the new facilities will treat 135,000 cu metres per day. The £5.35m contract will take 30 months to com-

lans at Craigellachie.

New Bradwell. The contract which carries the canal 40ft includes construction of three across the River Ouse near Old underpasses and a footbridge.
The aqueduct will be built in Wolverton. This was built by William Jessop in 1809 at a cost

of £3,677. The last new canal aqueduct on the Grand Union Canal wasbuilt by the Grand Junction Company to cross the North Circular road at Stonebridge near Wembley in 1933.
Nuttall is an operating company of Hollandsche Beton Groep.

spring 1991.

The last canal aqueduct to be built in Milton Keynes was

WALTER LAWRENCE CON-STRUCTION has been awarded four contracts totalling £7.4m. The company is constructing a seven-storey office building at St John Street, London at a cost of £4.5m, for London & Metropolitan Estates; and at Queen Elizabeth Street, London, is refurbishing a five-sto-rey office building for 3i Commercial Properties will cost about £1.8m.

RAWLINGS BROS, part of the Goode Durrant Group, has won contracts worth over £10m. These include schools at Burn-ley (£1.8m) and Bolton (£1m), and extending Ravensbourne School for the London Borough of Bromley (£1m). Alterations at Strangeways Prison, Man-chester, are worth £1.2m, while industrial units at Sandycroft, Deeside, are valued at £2m.

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Birmingham waterside development

Waterlinks has awarded a 17m contract to build its first development - Aston Cross, Birming-ham - to BRYANT CONSTRUC-TION. Work starts this month.

The contract is for the first phase, a two and three storey, waterside office development of 162,000 sq ft, for sale free-hold or to let, which is due for ompletion in December 1990. Aston Cross is the pioneer ing project which will pave the way for the regeneration of 40 acres of largely derelict land alongside the Birmingham and Pazeiey Canal by Waterlinks, a consortium of Tarmac, Wimpey, Douglas and Bryants. Waterlinks plans to build a 1m

waterinia plans village within the next four years.

Shops, a public house, and a restaurant will be built along the reconstructed canalade in locally-made red and blue brick. A management suite in a separate building will be ready for occupation in August, hossing an exhibition of all Waterlinks develop-

Hotel at Derwent

Hexham's historic Sialey Hall is to become a conference and leisure resort hotel. Close to Derwent reservoir, the \$30m Slaley Hall Sheraton will combine a championship standard golf course with a 140-room hotel, indoor leisure centre, conference and banquetting facilities, time-ownership accommodation and holiday

Conversion of the Hall and construction of the hotel are being carried out by FAIR-CLOUGH on a 26.8m designand-build contract from Slaley

Hall Resort.
The three-storey hotel will incorporate a glass-domed leisure centre with two swimming pools, saunas, solarium and symnastum. Completion is programmed for the spring of 1991.

rooms and a banqueting hall.

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DU MATERIEL DE LEVAGE

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ian Atlantic Freight Sec

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> Patricia Surridge on 01-873 3426

> > or write to:

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FINANCIAL TIMES

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ELECTRONIC PAYMENT SYSTEMS The Financial Times proposes to publish a Survey on the above on

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FINANCIAL TIMES

MANAGEMENT

t is reporting season again for the UK's large accountancy firms. Earlier this month Coo-pers and Lybrand announced a record 35 per cent increase in its fee income for the 19888s year and during this week some of the other big firms are expected to turn in resplen-

CARS.

dent performances as well.

Growth is not confined to the big Growth is not confined to the mg firms alone, and is not just a feature of the last financial year. The so-called hig Six have seen their income vault shead by 20.30 per cent a year for each of the past five years or more, and the medium-sized firms have expanded as well — so much so that they are now the same size as the hig Right were only a few years ago.

Big Eight were only a few years ago. Despite the growth rates, the vari-ous markets in which the firms operate - ranging from management con-sultancy to tax advice and corporate finance—are flercely competitive. All firms are actively interested in poaching business from their rivels and at all times they are to be found poaching each other's staff.

This combination of rapid growth

and fierce competition has posed difficuit management challenges for accommancy practices. Those at the top of the firsts have found themselves juggling with three sets of priorities — the need to expand profitably, the need to impose a central command structure on the business and the need to keep morale and moti-vation high in what must count as one of the ultimate people businesses.

These management problems are more pronounced for accountants than they are for other fast-growing businesses. The main difficulty is a structural one: by law, firms of auditors must practise as partnerships rather than incorporated companies. The 1989 Companies Act will change this, but up until now the accountants have had to struggle to find a way of imposing corporate style man-

ement onto a partnership.

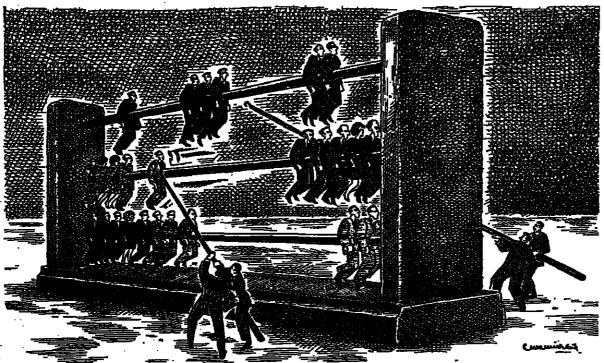
The central problem with a partner ship is that there is no division between ownership and management. For small firms, that does not present a problem - the firm will hold together through a mixture of shared goals and deference to experienced senior partners. But that cannot apply to the modern firms, the biggest of which have hundreds of partners generating fee income running into hundreds of millions pounds.

Each and every partner faces unlimited liability for losses sustained or damages brought against any indi-vidual partner or the partnership as a whole, regardless of the amount of capital he has committed to the firm. The practical consequence of this is that partners may be psychologically unwilling to submit to centralised management authority. After all, if one's entire personal wealth is on the line, there is little incentive for one to relinquish management control over the business for which one is directly responsible. The culture of independence is encouraged by the training which partners have gone through in

UK accountancy practices

Partners with a corporate sense of responsibility

David Waller examines how management and ownership are being separated



order to become chartered accoun-

Hugh Aldous, managing partner of Stoy Hayward, the UK's twelfth larg-est firm after the latest wave of mega-mergers at the top end of the profession, points out that the formal partnership agreement is often a doc-ument of great antiquity, drawn up in an earlier era of the 150 year-old accountancy profession. Typically it would spell out the way in which profits are shared and dictate that one partner be allowed one vote in any matter of consequence for the firm as

"There is no Companies Act defin-ing management's obligation to shareholders," says Aldons. "If the firm were actually managed according to the detail of the partnership deed, the result would be total and absolute

The management problem is to encourage the partners to dispossess themselves of some of their powers in as sensitive a way as possible. Any approach which is manifestly auto-cratic could lead to business disaster as valuable human assets pick up their calculators and walk out of the Firms have tackled the problem in different ways, but some broad

themes emerge:

The first step is to devise a strategic plan locating the firm within a well defined sector of the market place. For example, most of what used to be the Big Eight firms have decided to dedicate themselves to serving multi-national clients across a range of dischimes. Although many have diversi-fied, this strategy is cited as a reason for this year's wave of mergers between the big firms.
By contrast many of the medium-

sized firms have abandoned their attempt to serve the big public compa-nies and have decided to address themselves to the "owner managed" business sector, is companies with a turnover of between £20m and £50m. Robson Rhodes, for one, forged itself a new strategy in 1987 with the help of new strategy in 1987 with the help of the Ashridge Management College. As a result of the process the firm com-mitted itself to being "elite, profes-sional and expensive."

There must be a restructuring of the partnership agreement — a reshaping of the constitution of the firm in order to reflect commercial reality. To take one example the 250

partners in Grant Thornton, the UK's tenth largest firm, voted away significant powers in March this year at their annual meeting. They agreed that the majority required to approve constitute designs on the next way. sensitive decisions on the nature of the partnership would fall from 90 to

75 per cent.
They devolved the right to appoint new partners to an elected policy board – although they recognised that in practice partners are actually nominated by a small executive team headed by David McDonnell, the firm's recently appointed national

managing partner.

The management structure of the firm must be refined. As part and parcel of their reform exercise, Grant Thornton's partners agreed to a radical change in the role of the office managing partner. Hitherto these partners had been appointed by their colleagues in the local offices. Now they are appointed by eight regional managing partners who are them-selves appointed by David McDonnell and his executive team. In the past

groups.
"This is a huge change of culture," says McDonnell. "In the olden days

accountable to the regional management partner who in turn is responsible for implementing firm-wide poli-cies and standards at a local level and ensuring that the offices meet their financial targets."

The next step is to tighten up the quality of staff and clients. Deloitte Haskins and Sells, one of the UK's largest firms and now in the throes of a merger with Coopers and Lybrand, where knowledge of western went through this process in the wake languages is far from wideof its failure to merge with Price Waterhouse in 1984. Since then, says managing partner Alan McFetrich, the firm has shed £5m-£10m of unprofitable turnover and encouraged 70 partners out of a total of 260 to depart. The partnership has expanded by a net ten people to 270 since then, reflecting an infusion of new blood.

Hugh Aldous at Robson Rhodes talks in gleeful terms of a "dross drop" programme. "We went through a computer print-out of all our clients and identified hundreds we didn't want," he says. Five offices have been closed since 1987 and a number of partners have been encouraged to

■ The imposition of financial controls. Venture capitalists which lend to the firms often lament that accountants have no idea how to keep their own books in order. Over the past few years firms have followed their corpo-rate clients and introduced formal budgeting procedures. Performance targets - measured in terms of chargeable hours per person - have been established for each category of employee. Targets have been set for recovering outstanding debts, and cash flow is subject to scrupulous monitoring. Clear chains of financial accountability have been put in place. Many of the firms have recruited directors from industry to oversee the tasks, a trend which extends to other disciplines, such as

It is clear that there are problems in the move towards a professionally managed practice, as McDonnell recognises. "The big challenge for the firm is to balance central authority over partners with the need to have motivated entrepreneurial advisers in all our offices," he says. The process for the Big Six firms is easier, he maintains, "because the audit envi-ronment encourages deference to the

"The changes have gone through so fast that many partners have seen no impact on their day-to-day business," says David Norton, managing partner of Grant Thornton's Leeds office. "Of course there is scepticism in the prov-

Accountants will be able to turn themselves into limited companies at the beginning of 1991. By then, many firms will be already be companies in

the leaders of the local offices were very much local champions. They saw the job as representing the interests of their fellow partners in the office. The job specification has changed significantly. Now the office manager is nificantly. Now the office manager is necessary manager. Offering a lease

Kevin Brown explains why TIP has taken a route through Finland

ow do you get started in a country where there is little concept of marketing, property law or enforceable contracts, and spread? This is the conundrum facing any company wishing to take advantage of perestroika in the Soviet Union, a development which offers the tempting prospect of access to an almost untapped market of more than 280m people.

TIP Europe, the Anglo-Dutch trailer leasing group, has just signed an agreement which

First, it helps to start small, so that the Soviets can get to know you gradually. The TIP deal is for just eight trailers leased for five years, following an earlier agreement to lease five trailers for five years. But TIP is the first western com-pany to crack this particular market, and should be well placed to pick up more business later, especially since transport equipment is one of the areas which will have to be

modernised rapidly.

"This is really just the tip of the iceberg, which is why we are so excited about it," says Tony Rieger, TIP's chief executive, and the company's principal negotiator with the Soviets. Second, work with someone who already knows the Soviet market. TIP made its approach through Finland, where awareness of the Soviet Union is very high, but companies operate in a capitalist environment. The key move was to acquire the leasing interests of Narko, the Finnish trailer manufacturer, which gave TIP market leadership in Finland, and con-siderable clout with local

transport companies dealing regularly with the USSR.

Third, remember that the Soviet Union is a federation, that decentralisation is a crucial element of perestroika, and that some of the republics are more progressive than others. TIP entered the market through Estonia, one of the Baltic republics where economic and political change is most advanced, and one of the areas most used to dealing with Finnish companies. The company which is a joint vennian state-owned transport company and a group of Finn-

ish companies. Tony Rieger believes Estonia will remain at the cutting edge of economic change in the Soviet Union because of its proximity to the West. "The interesting thing is the rate at which expansion is going on there, and the way people are positioning themselves to take advantage of the geographical and economic opportunities. We are also talking to other companies based in the west-ern Soviet Union, and we think those will be the areas which will benefit most quickly from liberalisation," he says. But even in Estonia, there are structural difficulties in

getting deals signed. "The big-gest problem was getting through to the decision mak-ers," says Rieger. "The size of meetings tended to be very large, with technical people, representatives of the various shareholders, translators — all wanting to have their say."

The business languages used were not Russian and English,

but Estonian and Finnish. The contracts also presented a major problem because of the lack of a suitable legal mecha-nism for enforcement in the Soviet Union. In the end, they were drawn up in Russian and Finnish, and are enforceable in Finland. The Finnish link also helped overcome the problem unconvertible currency - the deal will be billed in Finnish Marks earned through the joint venture company's activities in

In the long run, the Soviet Union will have to develop a system of contract law, independent courts and a convertible currency if it is to reap the full benefit of foreign investment, says Rieger. But TIP's experience was that there was a tremendous desire for change. "We were cautious because we didn't want to launch into something which was not going to make any money. We didn't want to do something which would mean us providing all the cash and it then going down a black hole. But we did detect a great willwhich would be suitable."

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FINANCIAL HIGHLIGHTS ARAB-MALAYSIAN MERCHANT BANK GROUP

Half Year Ended 30th September, 1989 **Unaudited Consolidated Results**

	1989 In Million M\$	1988 In Million M\$	% Change
Net Pretax Profit	34.0	25.0	+36.0
Shareholders' Funds	250.0	21 3.4	+ 17.2
Loans & Advances,			1
Net of Provisions	3,215.7	2,563.7	+ 25.4
Deposits and Borrowings	3,705.9	2,865.2	+ 29.3
Total Assets	4,727.3	3,581.5	+ 32.0
Turnover of Money Market Negotiable Instruments	14,511.3	14,581.3	- 0.5

Year Ended 31st March, 1989 Audited Consolidated Results*

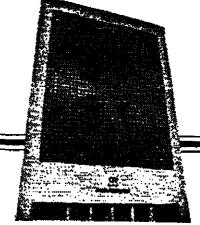
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-	1989 In Million M\$	1988 In Million M\$	% Change
Net Pretax Profit	58.0	41.9	+38.4
Shareholders' Funds	232.4	201.0	+ 15.6
Loans & Advances,	1		1
Net of Provisions	2,750.1	2,321.9	+ 18.4
Deposits and Borrowings	3,283.8	2,757.7	+ 19.1
Total Assets	3,987.3	3,306.1	+ 20.6
Turnover of Money Market Negotiable Instruments	32,895.8	25,299.7	+ 30.0

- AMMB became the first merchant bank to be listed on The Kuala Lumpur Stock Exchange (The KLSE). The Bank was adviser to the first company to be listed on The KLSE Second Board.
- The Bank has set up a property trust management company to manage Arab-Malaysian First Property Trust, the first property trust to be listed on The KLSE.
- The Bank, together with the Nikko Securities Co., Ltd Tokyo and The International Finance Corporation, Washington, launched The Malaysia Growth Fund totalling US\$45.25 million. The US Dollar denominated unit trust is aimed primarily at Japanese investors.
- AMMB became the first Malaysian merchant bank to organise and manage an equity unit trust called Arab-Malaysian First Fund.

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LEGAL COLUMN

Making a mockery of extradition procedures

MR LORRAIN Osman, the banker, has been receiving considerable publicity recently for his plight as Britain's lon-gest-serving remand prisoner. Mr Osman, who is 57. Malay-

sian, and the former chairman of Bumiputra Malaysia Finance – a Hong Kong sub-sidiary of the Malaysian bank, Bank Bumiputra – has been in Pentonville prison for four Pentonville prison for four years, during which he has resisted attempts by the Hong Kong Government to have him extradited on charges arising out of his alleged involvement in the Carrian affair.

In many cases there would be strong grounds for releasing him on bail, pending the final determination of extradition proceedings. However, the Hong Kong Government appears to have equally strong grounds for believing that Mr Osman would flee to the Liberian Embassy in London if he was released. His claim to diplomatic status in the Republic of Liberia is just one of the more bizarre elements in this increasingly complicated saga, which now deserves some

explanation.

The reason he is still on remand after 1,455 days is that he is taking every opportunity to prevent his return to Hong Kong. The scandal is not that he should do so (it is not hard to understand his reluctance to return) but that the system should allow it to happen.

The facts of the Carrian affair, and the collapse in 1983 of the largely fictitious Hong Kong property group with debts of more than £700m are

by now well documented. The allegations against Mr Osman are broadly that between 1979 and 1982, he was personally responsible for the dishonest loan by BMF of US\$800m (2513m) to Mr George Tan's Carrian group "contrary to all normal banking rules and with total disregard for the interests of the finance com-pany, its parent bank, its depositors and creditors." In return, it is alleged, Mr Tan, through Carrian, made over

about £12m to Mr Osman. Mr Osman is charged with 11 Mr Osman is charged with 11 offences of conspiracy to defraud, 11 offences of conspiracy to steal, seven of corruption, eight of theft and six of false accounting.

He was arrested in London in December 1985, after the issue of warrants in Hong Kong In May 1986, after fur-

Kong. In May 1986, after fur-ther warrants and a second extradition request from the Governor of Hong Kong, extradition proceedings began at Bow Street Magistrates' Court in London. The hearing lasted 66 working days - the longest ever of its kind. Final submissions on Mr Osman's behalf

lasted 17 days alone. On June 1 the following year he was finally committed to prison on all charges to await the Foreign Secretary's order for his return to Hong Kong. Ten days later, he launched his first application for a writ of habeas corpus.

The writ attacked the committal order of June 1 on a number of grounds, including insufficiency of evidence and lack of jurisdiction in the Hong Kong courts. His application did not come before the High Court until February 1988, when it lasted 19 days. The application was refused, and the court also refused him leave to appeal to the House of Lords against its decision.

Meanwhile, back in July 1987

he had applied ex parts to the High Court of Hong Kong for judicial review of the Governor of Hong Kong's request for his extradition. The application was made on the ground that if he was returned to Hong Kong and convicted, he would still be in prison in 1997 when the dependency reverted to China and that he should not be expected to suffer imprison-That application rumbled on for more than 12 months and was not finally disposed of by the Judicial Committee of the Privy Council - as Hong Kong's final court of appeal - until October 1988.

In June 1988, Mr Osman was granted leave by the High Court to bring a second application for a writ of habeas cor-pus, on the grounds of diplomatic immunity and abuse of

His diplomatic immunity claim was based on three diplomatic notes from the Liberian Embassy to the effect that he had been appointed its special roving ambassador to the EC because of his knowledge of Liberian commercial affairs. He further claimed that the Liberian Government had noti-fied the Foreign Office of his diplomatic status in October 1986, just before his arrest.

The abuse-of-process claim was based on alleged irregularities in the obtaining of the initial warrants in Hong Kong, which he said showed evidence of bias against him and a constitution of the constitution spiracy to get him back to Hong Kong at all costs. After three requests by Mr Osman to adjourn this second application, it was finally heard by the High Court in

November 1988. In December. it was refused. The court ruled that he had not been properly accredited by the Foreign Office as a Liberian diplomat nor properly appointed by Liberia. So in January this year, he applied to the court for leave to appeal to the House of Lords against that decision. Leave was refused.

In February, he applied directly to the House of Lords for leave to appeal against the refusal of the second applica-tion. That petition for leave to appeal is still pending.

In March, the European Commission of Human Rights rejected a complaint by Mr Osman against the UK. In April, the Liberian Embassy submitted a further diplomatic note "reconfirming" Mr Osman's diplomatic status and protesting at his continued

original warrants were issued in Hong Kong, that formed the basis of a third habeas corpus application made in June. it was that application that the High Court rejected 10 days ago but only on the abuse of process points. The court did not deal with the diplomatic status issue, because it is still the subject of the application for leave to appeal to the House of Lords — arising out of the second habeas corpus

Together with a further attack on the way in which the

application.
No date has yet been set for the House of Lords to hear his petition for leave to appeal the second application. In May Mr Osman applied for it to be adjourned indefinitely. No appeal has yet been launched against the refusal of the third application.

City solicitors Macfarlanes, who are acting for the Hong Kong Government, can only wait and see what happens next. The firm could apply on its client's behalf to have the petition for leave on the second

other hand, they argue that there is a case for giving him leave so that the matter can be dealt with by the House of Lords once and for all.

At the earliest, it is going to be next summer before the

House of Lords can hear such an appeal. Meanwhile, Mr Osman has two further appli-cations before the courts in Malaysia, which challenge the 1985 orders of the High Court of Malaya that allowed evi-dence to be collected against

If he should win either appli-cation in Malaysia, it is almost certain that he will make a further application to the High Court in London on the basis that all the evidence collected in Malaysia was collected unlawfully and was therefore inadmissible in the original UK committal proceedings.

The saga could run on for another two years. By then, Mr Osman will have been on remand for six out of Hong Kong he will not mind too much, but it makes a mockery of the system and the procedures of the Fugitive Offenders Act. It should not be forgotten that the act was introduced because it was thought appropriate to have simplified extradition arrangements between the UK and countries with systems of jus-tice based on our own com15th NOVEMBER 1989

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ARCHITECTURE

A cry for Spitalfields

"A cry goes up from the city streets, where wounded men he groaning. Why did these words from the Book of Job leap into my mind when I contemplated the new proposals that were recently announced for the redevelopment of acres of London to the east of the City? Surprisingly, it is not the sad muddle of London's Docklands that prompted these thoughts but the two major plans that have been prepared for Spitalfields Market and the redevelopment of Blahopsgate Goods Yard and Brick Lane.

Spitalfields is already a name that will have a place in the history of British urban development. It is a paradigm of the problems of planning. Spitalfields borders the eastern edge of the City and edges on the rapidly changing area of Docklands. It has always been home to successive waves of home to successive waves of new immigrants. The Great Mosque in Fournier Street encapsulates the history of the neighbourhood in one building it was built in 1743 as a chapel for the Huguenot silk weavers; from 1809 to 1819 it was occupied by the London Society for Promoting Christianity among the Jews; and from 1819 to 1897 it was a Wesleyan chapel. After the great wave of Jewish immigrants arrived from eastern Europe at the end of the 19th century, the chapel became the Great Synagogue of the Mach-zike Hadath Community, and in 1976 it became the mosque for the new arrivals from Ban-gladesh — Spitalfields now has the highest concentration of Bangladeshis of any city in

Today the area faces unique pressure. In a new book, Spital-fields: A Battle for Land, by Charlie Forman (Hilary Ship-man, £7.95) the current position is described as though Spitaifields was the new Beirut. "The war for the land is coming from almost all sides. One front is trying to push up from

third is trying to force a corridor down the Liverpool Street railway line by way of Bishops-gate Goods Yard. Against enor-mous odds, Spitalfields will end the 1980's with a larger and stronger working-class community living in better housing than it had ten years before. But the enemy has renewed strength, and the odds against Spitalfields in the 1990's are greater than ever." This is an emotive, powerful book written by a man who has seen and tried to tackle the dreadful housing conditions of the area.

It is not possible to look at the redevelopment of this part of London simply as an architectural exercise.

There are two major schemes in the pipeline. In October the Spitalfields Devel-

October the Spitalfields Development Group submitted planning applications to the London Borough of Tower Hamlets for revised proposals for comprehensive redevelopment of the 12 acres of land which is largely occupied at present by the Spitalfields fruit, flower and vegetable market. Royal Assent is expected before the Assent is expected before the end of the year for the Bill to allow traders to move to a new

market at Temple Mills.

For any developer, this area offers an incredible opportunity to enhance the eastern fringes of the City. The Spital-fields Development Group is a consortium of Balfour Beatty Developments Ltd, County and District Properties Ltd, and the London and Edinburgh Trust plc. Mr Peter Beckwith of LET plc has great ambitions for his plans. He wrote in December last year to one of his many architects that he felt that the area offers the chance "to pro-duce the very best mixed use scheme in Europe, if not the

world." There have been six schemes produced for the site in the past four years. The current comprehensive proposals are

Connell, now operating in London; they are best known for the design of the Trump Tower on Fifth Avenue in New York An earlier scheme, of much more subtlety and ingenuity – but many fewer offices – was prepared by the British practice, MacCormac Jamieson and Prichard, but this has now been abandoned.

been abandoned.

The American proposals are for 19m sq ft of new building of which 1.1m is proposed to be for commercial use. There will only he 118 "units" of social housing and 35 flats for sale.

White Exercise Headen Connell. While Swanke Hayden Connell are the principal architects, the developers have given the fringe housing to more interesting practices - Colquhoun and Miller, Burrell Foley and Ian Ritchie. A Spanish sculptor/angineer, Santiago Calatrava wil advise on the roof vaulting of the shopping Gal-

Spitalfields demands a more sensitive scheme than this one. sensitive scheme than this one. It is quite wrong for one firm of very dull commercial architects to design so much of the scheme. Whatever the good intentions of the developers to secure mixed uses, these proposals as they stand are architecturally mediocre. They are a tregic insult to a part of Lantragic insult to a part of London that offers such an oppor-tunity for a high density redevelopment that should be a real slice of the city.

The second major scheme, a redevelopment of 25 acres around the former Bishopsgate Goods Yard and Truman's Brewery in Brick Lane, is also the responsibility of London and Edinburgh Trust plc— working this time with the British Rail Property Board and Grand Metropolitan plc. The approach here seems much more promising, with something of a pioneering effort to form a partnership with the local community to



A bizarre new tower that threatens to rise up above the Eastern fringes of the City close to Spitalfields, by architects Covell Matthews Wheatley

developed by a Community Development Trust. The unhappy element in the scheme is once again the quality of the proposed architec-ture. The intention to concenture. The intention to concen-trate commercial development, which in theory "pays" for the community benefits, in a giant tower of offices has a crude logic. But it is the design that is so disturbing. Architects Covell Matthews Wheatley have produced a kind of space fantasy to accommodate some

1.3m sq ft of offices. This bizarre looking monster over-looks the "community" development and transport improvements like a terrifying godfather. Is this the only way we can achieve the basic improvements for the entire

Both these Spitalfields schemes have undoubtedly tried to balance the commercial and community pressures. You can see how the developgled, but they look as though they are in danger of seriously failing on the architectural front. The architecture betrays all the signs of over develop-ment in an area that needs nurture and beauty more than most. The urban and ethnic richness of this part of London has been ignored by the archi-tects, who have designed buildings that belong only in an architectural limbo.

Colin Amery

Boulez

Thursday night's BBC Symphony Orchestra concert could easily have come from that golden age when Pierre Boulez was its principal con-ductor and modernism seemed to stretch in a single unbroken line from Debussy and Stravin-sky to Boulez and Stockhausen and beyond. Now we know better, or rather worse. The con-cert began with Stravinsky's little Zoezdoliki and Debussy's Nocturnes – sounding snaver now that they would 20 years ago, the textures more integrated, the colours less distinct - and continued with Messizen and Boulez himself.

est sliver of Messiaen to reach London, an eight-minute exchange for piano (Yvonne Loriod in this performance) and ensemble in which a familiar gallery of bird songs is set against brass chorales and lam-bent melodies. The intention is the familiar devotional one, but the material endlessly recycled now has lost its freshness and bite.
Boulez's Le Soleil des eaux

has become relatively familiar in its most recent (1968) and seemingly final revision; sung here by Phyllis Bryn-Julson and the BBC Singers it seemed again a model of concision, intense, gem-like in its tonal purity and hardness, a vivid response to René Char's texts. Le Visage nuptici has by con-trast had a far less chequered history, even by the standards of Boulez's output. It was

begun, again to poems by Char in 1946; a first version was ready by 1951, but not per-formed until 1957, and then the score disappeared, to be disin-terred in the 1980s when Boulez set about wholesale revision. This was the British première of the revised ver-

It is still an elaborate con-

ception, though the two ondes martenot and quarter-tone writing of the original have disappeared; the soprano and mezzo soloists (Bryn-Julson and the unfailingly impressive Elizabeth Laurence) are meshed in a tangle of choral nd orchestral lines from which kernels of lyrical expres sion are allowed to emerge; the chattering delivery of the cho-rus in the fourth section "Evadne", and the sensuous presentation of the poem in the last are the most striking pas-sages. But despite its miscalcu-lations (and for all Bouler's rescoring the central pivotal movement remains fugitive and unwieldy) it carries even now a powerful, knife-edge tension, a sense of a composer straining his creative muscles to the utmost, of pushing audiences and performers to the limits of their comprehension in the certain knowledge that there are special rewards to be gained there.

Andrew Clements

Christa Ludwig

When Lotte Lehmann was

create an urban village to be

giving her farewell recitals in the 1950s, Christa Ludwig was already embarking on her sing-ing career. Together with Fischer-Dieskau and a handful Fischer-Dieskau and a handful of others, this mezzo has been one of the enduring giants of the post-war musical scene, on whose shoulders the tradition of German stinging has been borne with dignity and entire reliability. It is remarkable to think that she has probably heen active for 35 years or so. At her recital on Thursday the voice was quite mechanged voice was quite unchanged from what we can hear on early recordings. It is still

warm and absolutely steady, but perhaps has a new contralto richness in the lowest notes, which she displayed proudly in the low keys she had chosen for the one work on her programme — Schubert's Die Winterreise, the cycle which Lehmann once appropritied as her www.

warm and absolutely steady,

ated as her own.
No singer of any musical sensibility could use this work as a vehicle for showmanship, but even so Ludwig is extreme in her refusal to make it enter-taining. She simply lets the songs unfold at her own very measured pace and a minimum of verbal inflection and colour-

ing does the rest, with the help of an accompanist. Charles Spencer, in whom she enjoys total accord. This was the winter journey as of some great liner proceding majestically through frozen waters. The performance could hardly bave provided a greater

contrast to that of Brigitte Passbaender, the other female rasspaencer, the order lemane singer in recent years to have taken on what has generally been regarded as a man's cycle. Fassbaender is swept headlong by the songs' most active emotions, of hurt, of bitterness and determination terness and determination. After that it takes time to

adjust to the studied Ludwig, who reflects little of the work's external contact with nature and raw feeling.
For her, as she suggested in

her own programme note, this great song cycle is the journey of the inner soul. Her mission is simply to sing it as well as possible and with a heartfelt, deadly assisted and with a heartfelt, deeply serious understanding of the poetry that will communicate to those who are pre-pared to listen. Many artists have the ambition to sing Schubert this way, but only a few would dare.

Richard Fairman

Another Bruckner 6th BARBICAN HALL

When did we last have two London performances of Bruckner's knotty Sixth Symphony within five weeks? Lothar Zagrosek undertook the work with the BBC Symphony last month; and on Thursday the London Symphony showed their paces in it under Michael Tilson Thomas. Again there was a healthy audience, though perhaps enticed this time by the appearance of Maria Ewing. She is one of nature's Dorabellas (Cost fan tutte) but it was no more sur-prising to find her delivering Fiordiligi's arias than Tilson

scoglio" and "Per pletà" with scant irony, but much dra-matic intensity and command-ing volume. Amidst the fearful range-hopping Mozart required of his heroine, her basically mezzo voice became several voices; in full cry her effects were rivetting, though in pia-nissimo the vocal colour drained away, for all her deli-cacy with *floriture*. The Mozart-ean challenge of sustaining an umbroken expressive line was perforce shifted to her histri-onic skill, which is formidable. No doubt she could succeed in making a good fist of Aida or Thomas expounding Bruckner.
Miss Ewing invested "Come Norma or Erda, too, but one still wishes she wouldn't try.

Tilson Thomas had begun the concert with a beautifully balanced account of Brahms's hoary "Haydn" Variations, neither over-hearty nor too silken. but thoughtful and warmly sonorous. There were similar virtues in his Bruckner Sixth speedy, but less hard-pressed than most of Zagro-sek's. The abiding impression was of a craggy landscape in primary colours: too simple a palette for this involuted symphony, and too easily domi-nated by the (excellent) LSO

Between the clamorous highs and the palpitating lows, whole areas of more complex

feeling were dispatched rather plainly. No single passage came anywhere near Zagro-sek's subtlest and best-realised insights. Yet, as saving virtues go - they do presuppose some-thing that needs rescuing! - I thought Tilson Thomas's grasp of Bruckner's symphonic pro-file and broad proportions quite admirable, and quite satisfying as far as it went. Any early prospect of a Tilson Thomas Eighth or Ninth, however, would strike the heart with the same dismaying thud as a Ewing Isolde: please, not

David Murray

November 24-30

BUILDING MATERIALS AND AGGREGATES

The Financial Times proposes to publish a Survey on the above on

13th February 1990

For a full editorial synopsis and advertisement details, please contact:

ALISON BARNARD

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FINANCIAL TIMES

ARTS GUIDE

MUSIC London

The London Philharmonic conducted by Sir Georg Solti. Shostakovich, Tchaikovsky. Royal Festival Hall (Tues) (928

8900).
Vienna Philharmonic Orchestra
conducted by André Previn.
Haydn, Strauss, Dvorak. Royal
Festival Hail (Thur) (928 8800).

Quatuor Suk. Schumann, Gagneux, Dvorak (Mon). Salle Gaveau (45632130).
Orchestre Colonne conducted by Carla Maria Tarditi with the Colonne Orchestra's choir, Arley Recce, soloist. Berlioz, Roussel, Franck (Mon), Salle Pieyel (45638873).

(95639973). Dimitri Bashkirov, plano. Schub-

ert, Liszt, Brahms (Tue). SalleGa-veau (45632030), Orchestre de Paris conducted by Kent Nagano, with Nobuko lmai. Debussy, Takemitsu, Bar-tok (Wed, Thur). Salle Pleyel Barry Dongias, piano. Bee-thoven, Shostakovich, Berg, Liszt

Cleo Laine and John Dankworth with the Metropole Orchestra. Concartgebouw (Tues) (718 345).

(Thur). Salle Gaveau (45632030).

Amadeus Plano Trio: Norbert Brainin, (violin), Martin Lovett, (cello) and Arnaldo Cohen, (piano). Mozart, Beethoven and

Brahms (Wed) (76001755). Conser-

Michael's Reise: Chamber version of Second Act of Karlheinz Stockhausen's opera *Domerstog aus Licht*, conducted by the com-poser (Wed). Teatro Olimpico (393304).

Frankfurt

Frankfurt Radio Orchestra con-ducted by Raymond Leppard. Britten, Schumann and Sibelius (Thur). Alte Oper.

Vienna Wiener Streicherensemble con-ducted by Marie-Louise Oschatz. Stravinsky, Bach, Schoenberg

Wiener Schubert Trio, Mozart, Schumann. Musikverein (Tues). Hans Kann, piano, plays Mozart at the Konzerthaus. (Wed). Andrej Gavrilov, piano. Schu-mann, Schubert. Musikverein.

Madrid

Die Deutschen Bach-Vocalisten and the Collegium Aureum, conducted by Gerhard Weinberger.
Each (Thur). Auditorio Nacional de Musica (337 01 00).

New York

New York Philharmonic, conducted by Zubin Mehta, with Fiona Simon, Yoko Takeva, Charles Rex (violins) and Warren Deck (tuba). Vivaldi, Nielsen, Kellaway, Sibelius (Tue); and conducted by Giuseppe Sinopoli, with Bruno Cearchio, Ravel, Mussorgaky-Ravel (Thur). Avery Fisher Hall (874 6770).

takovich, Beethoven (Thur). Alice Tully Hall Lincoln Center (874 6770).

Washington

Academy of St Martins in the Fields conducted by Sir Neville Marriner. Berlioz, R. Strauss, Copland, Schumann (Wed), Ken-nedy Center Concert Hall (487

National Symphony Orchestra conducted by Gary Bertini with Rudolf Buchbinder (piano). Bee-thoven, Berlicz (Thur). Kennedy Center Concert Hall (467 4600).

Chicago Symphony Orchestra conducted by Neeme Jarvi. Part, Scriabin, Mussorgsky (Tue); and conducted by Gennady Rozhdestvensky. Shostakovich pro-gramme (Thur). Orchestra Hall

Tokyo

Prague Symphony Orchestra conducted by Jiri Belohlavek. Schubert, Tchaikovsky. Suntory Hall (Mon, Tues) (561 5012, 234

(201). I Musici. Albinoni, Vivaldi, Giordani (Wed); Vivaldi (Thur). Bun-kamura, Orchard Hall (403 8011). Tatiyana Shebanova (piano). Beethoven, Chopin, Satie. Tokyo Bunka Kaikan (Wed) (265 6361). Leipzig Gewandhaus Orchestra conducted by Kurt Masur, with Annerose Schmidt (plano). Bee-thoven. Suntory Hall (Thur) (505

1010). Traditional Japanese Music. Sha-kuhachi (bamboo flute) solos. ABC Hall, Shiba Koen (Thur)

Vanek Plays and Adam and Eve

SONO POLY AND GATE

With barely distinguishable programmes, each prominently advertising the other, two more chips off the old bloc arrive on the London stage five, if you count Vaclav Havel's three short Vanek plays as separate entities. Both Havel and the Russian dramatist Mikhail Bulgakov have suifered the slings and arrows of official censorship. But, whereas Bulgakov's Adam and Eve had to wait more than half a century for this tatty world premiere at The Gate, Notting Hill, Havel's thumbnail sketches of Czech conformity, in all its various guises, make their return to London on a tide of fashionable sympathy. The Vanek of his plays is

more a device than a character - a quiet, right-minded conduit for the neuroses and hypo-crises of his countrymen, who has been used by a scattering of Czech playwrights. The first of Havel's Vanek

The first of Havel's Vanek plays, Audience was written in 1975 for a social gathering at a time when Havel himself had been working in a brewery. It pops up his observations of the working man and relays them through an audience between a drunken and maudlin brewery head man and a non-drinking, nead man and a non-armking, self-effacing Vanek, a temporary worker under suspicion because he is also a playwright. In the second play, Protests Vanek's interlocuter is a cowardly media man, who flu-ently and fraudulently argues himself out of signing a petition of protest. The third - and weakest - ridicules the

Prague yuppie.
Peter Casterton, founder-director of the European Stage Company, has opted for a strongly idiomatic characterisation: the TV tycoon (John Peters) sports designer specs and worn corduroys while the brewery overseer is a belliger-ent Irishman. Both work well on their own terms, although the use of such clearly recog-nisable characteristics has its problems. The Irishness of Seamus Newham's overseer calls on a cultural awareness which I suspect has more to do with

our attitudes to boozy Irishmen than with Havel's attitude to

the working classes.
Tom Klight, as Vanek in all three plays, has the right sort of anonymity - a hint of sympathy for the worker, a hint of scorn for the intellectual, and a hint of embarrassment at the neurotic coziness of his yuppie friends in *Private View*. The three plays will be presented in rotation, at Soho Poly, two per evening.

evening.

The Vanek plays are not vintage Havel, but neither is Adam and Eve classic Bulgakov. Written in 1931 and not surprisingly banned by the Russian military, this is a bold, apocalyptic fantasy of science and ideology combined wreak the destruction of mankind. Adam, an unright young lion of the revolution, and his wife, Eve, a language student, are among a handful of survivors of a gas war which annihilates the rest of civilisation during the first act.

With them is a militarist zealot, a forgetful scientist to

zealot, a forgetful scientist to whose inventive powers to whom they owe their survival, a bad novelist, forever eulogising "the fresh pink cheeks of collectised peasant women and a prototype capitalist with a gangrenous foot, who main-tains that "as long as two people are left on earth, dollars will have a value."

will have a value."

Far from going forth and multiplying like good children of the revolution, Adam and Eve (David Drysdale and Sarah Keyzor) find their positions irreconcilable. He spends his time awaiting news of victory, while she discovers that the philanthropist genius of the scientist means more to her than communism. Bulgakov's critique of Stalinism has a curiosity value which scores some relevant points in Michael Glenny's lively translation. But his revolutionary types are too obvious and the portrayal of them too amateurish in Stuart Wood's production to stimulate any more than a forensic interest.

Claire Armitstead

Felicity Lott

It is a special honour for an English-speaking singer to be accepted as an interpreter of French music across the Chan-nel and Felicity Lott is one of the few artists to have been accorded such recognition in recent years.

Both in operatic appearances

in Paris and Brussels and in recitals, she has been welcomed as a valued guest.

It helps that she graduated In French and reviews in French journals usually pay respect to her accomplishment in the language, even if they cannot help pointing out that a native French speaker would get more out of the words.

The help coil a fine one and The balance is a fine one and it was reflected in the recital that the singer gave with Gra-ham Johnson at the Wigmore

Hall on Saturday, featuring an all-French programme with favourite songs by Fauré, Bizet and Debussy.

Apologies were made at the outset that singer and planist both had bad colds. But there

was little to show it in the singing, other than perhaps a shortage of firm tone lower

This was "Flott" as lambent of voice as ever, shaping Faure's "Soir" and Debussy's "C'est l'extase" with a sensu-

She is fortunate, too, that in Johnson she has an accompa-nist who will provide the disci-pline (no rallentandos!) this

What was lacking was any deeper interpretative impulse. With the exception of a small group of songs by Roussel, where the singer got to grips more actively with the words, one composer sounded much like another, each song as rav-ishingly beautiful as the one

Contrary to popular belief, there is scope for more in a programme of French mélodies, as one can find by sampling almost any recital disc by Gérard Source or Player Barrae. ard Souzay or Pierre Bernac. This was not, however, the

occasion for sounding ungrate-The audience had been given a full programme, when it might have had none at all, and enough vocal beauty to fill half a dozen recitals by most

other performers.

The encores, a selection of French light opera numbers by Messager and Oscar Straus, favourites of any admirer of Crespin, will have ensured that nobody left the hall at all

Richard Fairman

The Cult

WEMBLEY ARENA What makes the Cult different

metal thrash bands? Their hair is regulatory Ineir nair is regulatory length - long enough when shaken to totally hide pallid complexions; their lead singer lan Astbury spits and swears with precision, constantly checks his crutch to ensure that he's all there, and spends the requisite amount of time on his knees making love to the mike stand, the guitar and bass players wander aimlessly around the stage like inquisitive lion cubs, pausing occa-sionally to rub backs; the ciothes are leather, the lighting

from a myriad other heavy

ness allowance.
What's the sizzle that packed
Wembley for two nights over
the week end?

dazzles; and the music is loud

enough to ensure an early deaf-

The attraction of the Cult is that they are basically a pop band born at the wrong time. A decade ago any hopeful young provincial musician was indoctrinated into punk. Then the progression was usually into some form of heavy metal. The Cult took the Gothic

route, wrapping their music around Tolkien mythology. Slowly they are returning to the real world and in a couple of years time they will probably discard the red Iron Cross that still decorates the drum kit and become an out and out

rock group. For the moment, though, they have achieved the dream of all record industry moghuls a cross over band that appeals to many market seg-

Asthury has already mas-tered the line " Are you ready for a little rock and roll?", and then the Cult is off and playing the mainstream pop music of two decades.

The give away is that guitarist Billy Duffy actually dares to play solos, and very good they are, too. The Cult has a disci-pline and ability to flesh out the music which is rare in a genre where image and noise is all. The mix of total rock out with fairly discernible melodies makes the Cult a band you can sing along to as well as shake along, too.

And Asthury, while on the beefy side, obviously pulls in the girls, who were present in numbers quite out of order for a regular heavy metal bash

among the lads. By the time the Cult got down to their anthem, and, let's face, it pop chart hit, "She sells sanctuary", Wembley (much improved these days) was its usual stomping, fist clenching, body bending, brain

blown, self. Band and fans had very happily, individually and sever-ally, got off, and it was time to

Antony Thorncroft

FINANCIAL TIMES

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All together, now

THE SCENES in Prague over the weekend are ones that Europe has been waiting for the last 21 years.

Of all the countries subju-

gated by Soviet power after the Second World War, Czechoslovakia was closest to the heart of Europe, literally and figura-tively. Sacrificed to Hitler by the western powers in 1938, it was in 1945 spontaneously and genuinely pro-Soviet. But in 1948 Stalin insisted on its subjection to the same monolithic and brutal version of commu-nist rule as the rest of eastern Europe. At the time, his Czech followers faithfully imple-mented his instructions, though many soon found them-selves among the victims. But the Party retained enough life in it to be able, in 1968, to reflect society's desire for

Just how far that change would have gone in the direc-tion of full multi-party democ-racy we shall never know, but in the climate of those times Czechoslovakia would probably have remained in some sense socialist, and the reforming Communists might well have retained power even in a free vote. In any case, the country's external alignment with the Soviet Union was never ques-tioned. The suppression of the "Prague Spring" by Soviet tanks was thus all the more offensive for being a gratuitous attack on Czechoslovakia as a whole, including its Communist Party, which had afterwards to be purged from top to bottom. The resulting regime has governed Czechoslovakia for 20 years without a shred of legitimacy even by communist standards, and no semblance of

Unstoppable momentum Now at last it is ending. The events of the last few days fol-low a pattern now happily familiar, and clearly reflect an unstoppable momentum. In Czechoslovakia as in East Germany, the opposition is not yet organised, and the problems of economic restructuring are formidable to say the least. But a Peking-style "Tienanmen ruled out, and there is no other way the situation can be stabilised except by conceding free elections. The reappearance of Mr Alexander Dubcek, the reforming Communist leader of 1968, is a heartening symbol and he might be an appropriate head of state in the new regime. Whether today's Czechs and Slovaks are still ready to support "socialism," even with a human face, is much more doubtful. The choice, in any case, must be for

cal change is now under way in all five of the genuine Soviet satellite states of eastern Europe (the Romanian dictator having shrewdly extracted himself from that status, with western encouragement, back in the 1960s). There must be some safety in those numbers. Whatever pitfalls lie ahead for Mr Gorbachev at home, the likelihood of any Soviet leader-ship using military force to overthrow five east European governments is surely remote.

Warsaw Pact

Even more so, now, is the prospect of a Warsaw Pact offensive against western Europe. That is a political reality of which the US, struggling to reduce its budget deficit without increasing taxation, is bound to take account. But Nato still exists, and must remain in existence at least until the new politico-military shape of eastern Europe and the Soviet Union is fully clear. That will be some time yet and during that time Nato's members must continue to behave like good alties, reducing their forces only by agreement and in response to changes on the other side, whether these are negotiated or unilateral.

The process of political change in eastern Europe can be more safely managed if the Warsaw Pact too remains in existence, with its present membership if not its present structure, during this transi-tional period. That implies keeping the two German states separate for the same period, since one state could hardly belong to both alliances. But that in turn is a reason why the period should clearly be understood to be transitional, since in the last resort the people of each European state (and in particular the people of East Germany) must be free to decide which alliance, if any, it wishes to belong to.

Meanwhile, the prospect of reforming governments throughout eastern Europe opens the way to real economic co-operation among them. remain conditional on genuine political and economic reforms, now has the chance to act as a catalyst of east European unity. overcoming the dangers of resurgent nationalism, just as Marshall Aid did for west European unity in the late 1940s. All Europeans, east and west, should get together as soon as possible to work out ways of promoting the cause of freedom in Romania and Albania, since those two European peoples are now the only ones prevented from speaking

A process of sweeping politi-**India votes**

THE INDIAN electorate, half a billion strong in the world's largest democracy, has voted for change and against corrup-

to leave all parties short of a working majority. But the voters' message has been unmistakeably clear: it expects politicians, in return for the power vested in them, to remain honest and to root out the corruption which is in danger of becoming endemic at all levels of official Indian life.

slide victory, partly on a wave of sympathy following the assassination of his mother, Mrs Indira Gandhi, by Sikh extremists, but mainly because of his convincing claim that he would fulfil the role of Mr Clean. Government corruption, principally the Bofors arms scandal, has sullied that image. The electorate has come to

this year's poll with the same message. The results again show clearly that voters will not condone corruption and will vote out those it holds responsible in both national or

It is for this reason that Mr Gandhi and his Congress Party have not fared as badly as they feared, although they have suffered the humiliating loss of about half their support since 1984. Congress was the opposi-tion party in most southern state governments and therefore benefited as the voters rejected the parties in power. In the electorally more important north, the reverse was the case and Congress has suffered

The new Mr Clean is Mr V.P. Singh, a modest man whose integrity remains unquestioned. He was a former close ally of Mr Gandhi and served as an exceptionally able finance minister. He quit the Cabinet and went into opposition because of high-level gov-

ernment corruption.

The success of his National front coalition of five parties, while a personal triumph, propossible result for India: a would appear to have little chance of forming a government as minority party sup-port is unlikely. But Mr Singh would need external help to secure an overall majority. The obvious choices are the Bharatiya Janata Party, a right-wing Hindu fundamentalist party. and the Marxist Communist Party of India. Each has done well in the poll and insists it will not serve with the other in a coalition government.

Horse trading

Clearly there is much horse trading to be done once the final results are known. If. for example. Congress were to split, with some factions joining Mr Singh, the chances of a broad moderate coalition government would be enhanced. Mr Gandhi's personal position will not become clear for some time. He seems temperamentally unsuited to opposition and his party may prove unforgiving if Congress is not

Whatever happens, democracy has proved itself again in India. In spite of the violence and ballot rigging, both of which have reached disgraceful levels, the majority of Indi-ans have abided by the rules and then used their ballots to change the balances of power. They may have ended the Gandhi dynasty's hold on gov-ernment and with it the cult of the individual which has plagued Indian politics for decades. The fact that difficult compromises will now be needed to form a new government is by no means the worst outcome for Indian democracy.

r Charles Keating was unusually reticent last week when he appeared on Capitol Hill. He was due to testify to the House Banking Committee about the collapse of his Lincoln Savings and Loan mortgage and property lending group at a cost to US taxpayers of \$2bn (£1.28bn) to \$2.5bn. But he refused to answer questions, invoking his constitutional Fifth Amendment rights against self-incrimination, as well as his right not

to be photographed or broadcast.

Mr Keating faces a battery of legal actions and inquiries, including a \$1.1bn racketeering and fraud suit. In the past, however, Mr Keating has been more voluble. He has boasted of his high-placed friends and contacts. He was appointed by President Nixon to an anti-pornography commission; was the final campaign manager for former Treasury Secretary John Connally's disastrous presidential bid; employed current Federal Reserve chairman Alan Greenspan as a con-sultant; met White House Chief of Staff Donald Regan to urge the appointment of an associate to the main savings and loan regulatory board; and, most significant of all, donated or raised nearly \$1.4m for five US senators.

Earlier this year, Mr Keating said that when asked whether his "finan-cial support in any way influenced several political figures to take up my cause, I want to say in the most force-ful way I can: I certainly hope so."

The Lincoln saga is only part of the much larger story of the collapse and rescue of much of the savings and loans industry, officially put at \$164hn, but more likely to be \$250bn to \$300bn. Lincoln has become a national scandal because it has lifted the veil on the mutual dependence between businessmen and politicians

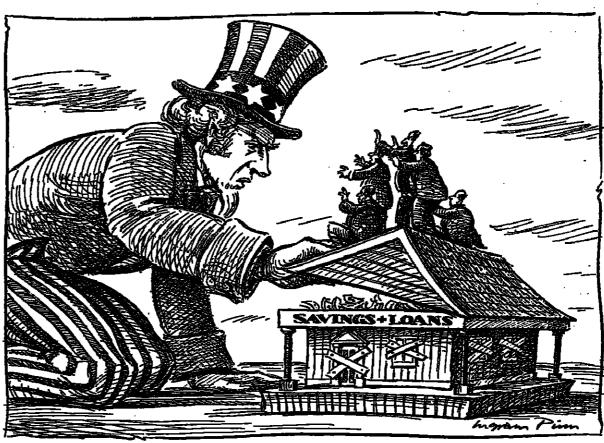
- the search of the former for access
and influence and the need of the latter for large sums of money for election campaigns, and especially television advertising spots. Senators now have to raise an average of \$12,000 a week for their six-yearly reelection campaigns.

Savings and loans – known as thrifts – occupied the same role as building societies in Britain in financing house rusabase has a saving house ing house purchase by raising small-scale deposits. But there were two key differences. First, savings and loans have independent shareholders like ordinary companies, rather than being depositor-owned, as they have been Britain. This allowed takeovers by operators such as Mr Keating.

Second, much of the thrifts' lending was on long-term fixed interest mort-gages. While there was also a limit on the interest paid on deposits, savings and loans were increasingly handicapped during the 1970s by the rise in interest rates. So in 1980 the cap on interest payments on deposits was lifted, and in 1982 savings and loans were allowed to diversify away from low yielding mortgages into direct ments such as property develop ments and land, as well as high return junk bonds.

This led to an extraordinary period in the early-to-mid 1980s as a wide variety of businessmen bought up savings and loans and expanded them rapidly, notably in Texas and Califtogether packages of up to the \$100,000 limit of Federal deposit insurance - an open-ended scheme which was inadequately funded and, with lax regulation, provided no discipline. On the asset side, the new owners became active in risky property devel-opments and junk bonds.

Mr Keating was at home in this world. He had a chequered history, having signed a consent decree with the Securities and Exchange Commission in 1979 (neither admitting nor denying liability) over an alleged fraud. This background did not prevent him, as it would now, from buying Lincoln in 1984. He expanded its operations into currency futures, junk



Peter Riddell looks at a banking scandal which has turned into a big political issue

Lifting the veil on dependence

bonds, large areas of undeveloped land and property developments. Mr Keating soon had problems with regu-lators. Mr Edwin Gray, then chairman of the Federal Home Loan Bank Board, tried to limit the amount of direct investment which savings and

loans could make.

Mr Keating tried, and failed, to seek exemption from this change – including commissioning Mr Alan Greenspan, then an economic consultant, to produce a report in early 1985 on the case for higher direct investment. Mr Greenspan's report praised Lincoln's management as "seasoned and expert" with "a record of outstanding success." Mr Greenspan, now Fed chairman, has expressed surprise and regret at what has since happened. Throughout this period Mr Keating

built up political contacts – disburs-ing money to a wide variety of local and national politicians. But the bulk went to the five US senators listed in the table. These were not just arm's elled together to the Bahamas with then Representative (and now Senator) John McCain from his main base of Arizona. McCain has subsequently repaid the cost of the airfares. Mr Keating also organised a large fund-raising event in 1987 for Senator Donald Riegle of Michigan, since last January the chairman of the Senate

Banking Committee.

Mr Keating and his associates raised big sums for Democratic Sena-tors John Glenn of Ohio (the former astronaut), Alan Cranston of Calif-ornia and Dennis DeConcini of Arizona. Either Lincoln or Mr Keating had a connection with their states.

Political friends in the right place

came under closer scrutiny. Regula-tors, particularly in San Francisco, suspected Lincoln of being \$600m over the direct investment limit and of lending without proper appraisals. In spring 1987, Lincoln not only sued the regulators but also mobilised the recipients of his campaign contribu-

The five Senators

(Contributions made directly or raised by Keating and associates)
Dennis DeConcini (Dem, Ariz):
received \$48,000; later said he
would return the money.

Alan Cranston (Dem, Cal): received \$39,000 directly, plus \$850,000 for political groups con-trolled by him and \$85,000 for California Democrats. John Glenn (Dem, Ohio): received \$34,000 in campaign contributions;

with him received \$200,000.

John McCain (Rep. Ariz):
received \$112,000 directly; has paid
back \$13,400 for flights to Bahamas with his family. Donald Riegle (Dem, Mich): received \$76,000, later returned.

On April 2 and 9, 1987, there were two meetings with the regulators in the office of Senator DeConcini. Senator Riegle did not attend the first, the second included all five. At the first, Mr Gray of the Federal Home Loan Bank Board alleges that a relaxation of the direct investment rule for Lin-coln was demanded. He says the sena-

process for their wealthy friend and contributor." The senators insist they were only seeking information on why the Lincoln inquiry by the regulators was taking so long. At the second meeting, Senator DeConcini allegedly outlined Lincoln's proposals for resolving the problem, while regulators from San Francisco described the thrift as a "ticking time bomb" Sena. thrift as a "ticking time bomb." Sena-tors McCain and Glenn were then recorded as saying they wanted no special favours. Despite these appeals, the San Fran-

cisco regulators pressed for Mr Keating to be removed and for Lincoln to be taken over. However, the board's head office in Washington was reluc-tant to take such a drastic move, arguing that the local regulators had not made out a sufficient case. After further reviews under Mr Danny Wall, who replaced Mr Gray as chairman, no direct action against Lincoln was taken. Indeed, after considerable ington head office acquired responsibility for Lincoln in May 1988. It was only last April that Lincoln was taken over with large losses on risky invest money (possibly up to \$100m) was illegally taken out of Lincoln by Mr Keating and his associates.

There is a further twist to the story.

The Securities and Exchange Commission also became interested in the activities of American Continental, Lincoln's parent, but found its inquiries hampered not only by Mr Keating but also by the accountancy firm Arthur Young (now merged into Ernst and Young). Mr Richard Breeden, the chairman of the SEC, has claimed that Arthur Young had been "very unhelpful, very unforthcoming and very unco-operative in any shape, way or form."

Another accountancy firm brought in by the regulators claims that Arthur Young approved accounts which substantially overstated profits, possibly by up to \$135m. Arthur Young, which parted from Lincoln in October 1988, denies these charges. Mr Jack Atchison, the Arthur Young partner responsible for the audits, joined American Continental in early 1988 at a salary of over \$950,000. He has refused to testify before the House Banking Committee. Another accountancy firm brought

House Banking Committee.

The overall impact of these delays, whatever their cause, between spring 1987 and the Federal takeover last April is estimated to have added \$1bn to the cost of the rescue. In this period American Continental also sold \$200m of now almost worthless bonds (not protected by Federal insurance) via Lincoln outlets. The blame for the slow response lies in a combination of feuding and indecisiveness by the reg-ulators, reinforced by the refusal of top levels of the administration or Congress to take an interest in Liucoin's increasingly obvious problems. The actions of the five senators in April 1987, and of Senator DeConcini subsequently in talks with the regula-tors, reinforced, rather than created.

The collapse of Lincoln, and subse-quent revelations of the role of the five Senators and of the regulators, is now a hig political issue. Over the past six weeks a series of charges have been made at hearings held by Representative Henry Gonzalez. His main target is Mr Wall and why he delayed closing Lincoln. Mr Wall emerged battered, and defiant, from the 7% hour hearing last Tuesday when Mr Keating refused to testify. The White House has already distance that the control of the co tanced itself from Mr Wall, who heads the Office of Thrift Supervision, the new regulator set up under this year's reorganisation of the thrift industry. Representative Jim Leach, a know-ledgable Republican member of the ledgable Republican member of the committee, commented that if the allegations were true, "Charles Keating is a financiopath of obscene proportions — the Rev Jim Bakker of American commerce — given license to steal by a bank board headed by the Neville Chamberlain of financial regulation, a cheerleader who saw little axil and thus moke little truth" tle evil and thus spoke little truth." The five senators have captured the headlines because of their number

and their prominence. All have denied wrongdoing, claiming they were merely performing a service for a con-stituent (albeit in several different states). The Senate Ethics Committee has appointed independent counsel to see whether there are grounds for further inquiry. But whether or not the senators

have broken the Senate's rules is almost beside the point. The significant question is that the meetings took place at all and were regarded as normal by the senators. Money may not buy decisions, but it does buy access to legislators, and thus to regu-

This mix of money and politics is also reflected in the president's use of ambassadorships to reward large camence. Similarly, there have been allegations that low income housing programmes were exploited during the Reagan era to benefit prominent Republicans and donors.

The affair of Mr Keating and the

five Senators may just be a footnote in the whole sorry savings and loans saga, but it could also be a spur to reform of the campaign finance laws to limit special interest contributions which Congressional leaders plan to push next year. A favourite Washington saying is that what is wrong with American politics is not what is illegal but what is regarded as legal and

Japanese in for change Brussels

The general election appears

That was the message in 1984. Mr Rajiv Gandhi was swept to power with a land-

state governments.

involved in government.

■ To Belgium at the weekend to learn about Japan - or rather Japanese art. There is a collection of exhibitions all over the country with much of the best of what the Japanese have to offer, and the Belgians are flocking in. On Satur day afternoon in Brussels there were queues for the exhibition

n Japanese Buddnism. The overall title is Europalia lia is a mixture of Europe, obviously, and opalia, the Latin term for the harvest festival. The Belgians have been two years or so since 1969 when they started with Italy.

The idea is that you invite another country to send its treasures to Belgium for around three months and the local population absorbs them ising numbers. There were over 1.6m visitors to the exhibitions on Austria two years ago.

Japan was the breakthrough Hitherto, all the exhibiting countries had been European. The Japanese agreed to come not because of Belgium, but because of Brussels, which is a kind of magic word to them. That is where a lot of them think that power lies in Europe. Out of total costs of around Yibn, the Japanese Government put up around two-thirds. There were also subsidies from companies such as Honda, which has a large distributing base in Belgium.

Stick to golf

■ The General Commissioner responsible for getting the Japanese programme under way is Jacques Groothaert, a former diplomat who has been chairman of Générale de Banque since 1980. Grootheart was Ambassador in China and was one of the last Westerners to talk to Mao Zedong before he died. He says that Mao could hardly speak, but insisted on

OBSERVER

going through all the formali-ties of receiving foreign emis-

The Chinese rather liked Groothaert and were always inviting him. This year, however, he resigned from all his posts on Sino-Belgian and Sino-European organisations as soon as the troops went into Tiananmen Square. Anyway, it was for his Asian knowledge, as well as for his many other international contacts, that

he was given the Japan show. He says he found the Japan nese quite difficult to persuade at first. It was largely the Brus-sels tag that did it. Also, the Japanese only wanted to send classical work — nothing mod-ern or contoversial — and ern or controversial - and they wanted the pieces back as soon as possible. The Bud-dhist exhibitions could run much longer, Groothaert claims, if the Japanese would let them.

Grootbaert was also warned not to expect the Japanese in Europe to come to the exhibitions. When the Japanese abroad are not working, they play golf, he was told. And that seems to be true. Some Belgians take great pride in attracting the Japanese colony in Düsseldorf to Belgian rather than German golf courses at weekends, though a sizeable number of Japanese did turn up at the Bunraku puppet theatre at the Théatre National, followed by a saki

Video art

As it happens, some of the modern work which the Belgians did manage to secure is immensely impressive. There is a young artist called Yasumasa Morimura on show in Gent who is plainly fascinated by western influences the Impressionists, van Gogh, modern Americans, the lot. He tends to take a

party, on Saturday evening.



"Don't even think of it, Ted,"

well-known self-portrait and turn it into one of himself, often by using photographs as well as paint. One day I suspect his work will command a lot of money.

The Japanese are much less

embarrassed at being crazy about video. This has become an art form itself. In Antwerp there is a model of a Japanese miniature garden, but instead of stepping stones, it is paved with miniature Sony videos all showing different moving pictures. Another favourite is to hang about 15 synchronized videos on a wall, and indeed some Japanese artists now seem to compose direct onto the video screen

Columbus next

■ The next Europalia in 1991 will feature Portugal. That is not quite such a tame idea as it sounds after Japan. The year 1992 will contain a notable 500th anniversary - Columbus's discovery of America. The Belgians have secured Portuguese support for getting in with the first of the major

exhibitions. After that, the aim is the Soviet Union, although

British past

■ There was a British Europa-lia in Belgium 1973 — the year Britain joined the Europe Community - and some grand old British names behind it: Lord Drogheda, Sir Charles Villiers, Sir Francis Sandilands and Lord Stokes. Sir John Beith, the British Ambassador to Belgium, wrote that it was "the largest single British cultural event ever mounted outside the IJK".

I looked back at the programme and was impressed by the range: an evening with Sir John Betjeman, the Laure-ate, and another evening of protest poetry. Lord Annan lectured in French on the British University System and Sir Frederick Dainton, the chairman of the University Grants Committee, also in French,

on Science and Society. A very special British show was called For a Total Environment - "A major exhibition covering the vital problems of clean air, water, the transformation of mining regions and the preservation of historic buildings." It was arranged by the Department of the Environment. Those were the days when Britain was ahead of the

No joke ■ Sadly, there do not appear

any jokes in Belgium any more, at least outside the European Commission, which was closed. The Belgians go about their business, looking very prosperous, on the way to overcoming their linguistic prob-lems, and visiting exhibitions. In some parts of the country they even have access to 25 different television channels. Even Mrs Thatcher was shocked to hear that when told by the Belgian Ambassador. So today there is, I am afraid,

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ne of the silliest canards being flown is that it would be sensible to repeat next year the British policy mix when an unexpectedly tight Budget in a recession, which led to the famous protest by 364 economists, was also followed by an easing of interest rates and a fall in sterling.

The one similarity with 1981 is the combination of high interest rates and pressures towards recession. But the differences are very much greater. In 1981 the Budget was still in heavy structural deficit and a strong policy pointer towards long-run balance was required. Now however the Budget is showing a surplus and any required long-run correction could be in the opposite direction.

opposite direction.

A more important difference is that, just before the 1981 Budget, sterling had overshot upwards. Once British industry had received its salutary shock, the main need was to bring the pound down to levels with which business could live.

business could live.

Today the opposite danger prevails.

The biggest threat to economic policy comes from the alarmingly downward drift of sterling; and it is this that ought to be the focus of attention ought to be the focus of attention rather than the balance of payments. Sterling has been on a worrying course since the last rise in base rates to 15 per cent on October 5, in the wake of a Bundesbank increase, failed to steady the currency. It was, in fact, reasonably stable immediately afterwards, but was fatally undermined by undenied weekend reports that the Prima Minister and/or Six Alan Wal. Prime Minister and/or Sir Alan Walters were opposed to any further action to prevent the pound falling.

The following week, that of the Conservative Party conference, when I was mercifully in America, sterling went below Nigel Lawson's preferred DM 2 laws Affor he resigned his one DM 3 level. After he resigned his ene-mies were delighted to report that sterling had stabilised in a slightly lower range. Alas for the British economy, their triumph was shortlived, as sterling has since been approaching the DM 2.80 level. For a year ahead it is quoted at well below DM 2.70.

Even these rates would be tolerable, though undesirable, if there was some intention to stabilise the pound there, perhaps in conjunction with full EMS membership in the second half of 1990. It would mean that inflation would take longer to converge on European Community levels, and

there would be gyrations; but converge it eventually would.

The really frightening prospect is of sterling continuing to sag with no end in sight as high expected depreciation, high interest rates and high inflation join together in a self-reinforcing circle. forcing circle.

Nor has the decline been only

against the D-Mark. Despite the dollar's recent weakness, sterling has also been weak against the Bank of England Index and is now near the low point reached in the winter of 1986-87 (after the rebound from the oil price drop and before the run up to the last election). Virtually all the ground gained since has been subsequently lost.
The political uncertainties about

ECONOMIC VIEWPOINT

Look at sterling, not trade figures

By Samuel Brittan

the Prime Minister's position and the next election are said to be an adverse factor. But the pound is hardly helped when Mrs Thatcher in her interview with The Times last Friday once more dismisses any idea of interest rate policy being influenced by a concern for the exchange rate. Nor is it helped when she offers fulsome and unqualified praise for Sir Alan Walters, despite the latter's scarcely concealed advocacy of lower sterling and lower interest rates. She obviously did pre-fer Sir Alan to her own Chancellor. But it can hardly be a good thing that sterling should have fallen fur-ther after a recorded trade deficit ther after a recorded trade deficit lower than market analysts had expected. Some self-proclaimed Government sympathisers see the clue to election victory in a tough fiscal policy in 1990 followed by 18 months of falling interest rates, even at the expense of sinking sterling. This could work in the very crude sense that falling mortgage rates distort headline inflation rates downwards (just as rising rates distort them upwards). The inflationary effects of falling sterling are more fundamental, but may be delayed until after an election.

election.

What this pretty little theory leaves out is the possibility of a sterling downturn getting out of hand. Politically, the Government cannot be sure of fooling enough of the people enough of the time to win by such cosmetics. As a gentle reminder, the basic inflation rate, excluding mortgage interest – now 6.1 per cent – will feature regularly in this column, together with an estimate of the underlying trend. underlying trend.

Meanwhile, the October trade fig-

The differences with 1981, when a tough **Budget belped interest** rates fall, are greater than the similarities

ures did not add much to one's knowledge of the British economy. But just to continue my regular teenager's guide: they confirmed — in conjunc-tion with the figures of earlier months — that the current account deficit for 1989 would be around the £20bn pre-dicted by the Treasury. (By the bal-

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	UK	UK visible trade volume						
	% cha				Exports	Impor	ts 🖟	
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Constant (1985) pri								
As % of GDP		Average			1		ruĝe	
	1	1965-79	1979	1986	1989	79-89	86-89	
Personal consumpt	ion	59.1	59.0	62.3	65.3	+6.3	+3.0	
Government consu	mption	21.6	21.2	20.5	18.8	-2.4	-1.7	1.
Fixed investment		18.4	17.1	16.7	19.9	+2,8	+3.2	1
Stockbuilding		0.7	1.0	0.2	8.0	-0.2	+0.6	
Balance of trade in goods and services		0.3	1.5	0.3	-4.7	-6.2	-5.0	

ance of payments, I do not of course mean the true figures or even a best guess, but the estimates published by the Statistical Office with a £15bn unallocated balancing item).

Domestic savings

Source: London Business School

All one can say beyond that is that the current deficit is somewhere between level pegging and on a slightly improving trend. The best indicator (in the top table) is the one which shows volume changes, excluding oil and other erratic items. In the first 10 months of the year, imports rose very slightly more than exports. But in the shorter period since the Easter quarter, the quarterly growth of exports has been somewhat higher. Professor Wynne Godley has objected to my saying on the basis of the figures in the Autumn Statement that the current deficit reflects rising investment, partly financed from overseas, rather than falling savings.

(Letters to the Editor, November 21.) Readers are entitled to ask why there are such large differences on apparently factual matters.

-1.3

19.8 17.2 15.9 -3.9

One reason is simply that of periods compared. My comparison was with 1986, the last year of recorded current account balance, while Professor God-ley's was with 1979 and earlier years. The latter comparison is appropriate if one is appraising the Thatcher Government's record (as I have attempted to do in my chapter in The Thatcher Effect, edited by Kavanagh and Sel-don, published this year by OUP). The former is more relevant if one is examining the swing into deficit. Another difference is that I looked

at so-called nominal magnitudes (that is actual cash) while Godley looked at constant price estimates. Although I do have a preference for nominal magnitudes, especially when discuss-

ing financial policy, the main reason for my procedure is that official estimates for savings are published in nominal terms. Estimates of consumption, which is the difference between income and savings (and which Godley prefers to use) are usually published in constant prices. A third difference, less important in practice, is that I have used estimates for 1989 rather than forecasts for 1990.

But to meet Godley more than half way, I am including a table at constant 1985 prices, specially prepared by the London Business School. I should add that in this sort of table the balance of payments deficit is

the balance of payments deficit is overstated because it does not include overseas interest, profits, and dividends which have fluctuated between

% and 1% per cent of GDP.

The table does show that, of the 5 percentage points deterioration in the current balances between 1986 and 1989, some 1.3 points are due to a fall in domestic savings, but more than 3.7 points are due to increased investment and stock-building (rounding downwards for consistency). If one looks at nominal magnitudes instead, there is little change in the savings ratio and a smaller trade deterioration. But on either basis savings are much higher than most commentators, who forget about the corporate and public sector contributions, and and public sector contributions, and only look at personal savings, assume. Another reason, however, why the fall in the savings ratio is so modest is that the rise in personal consumption has been partly offset by a fall in government consumption. Whatever the political pros and cons, the picture remains one of an investment boom financed by overseas borrowing. If that is all that has happened, where does the inflationary threat come from? It cannot be seen from a table of percentages. It arises basi-cally from a growth in demand and output too great for the economy's capacity, which has taken the level of labour and capacity utilisation above the so-called natural rates consistent with non-accelerating inflation.

The important question is whether the level of interest rates required to finance the current deficit is excessive for inflation control purposes. Up to now it has not been. But how do we escape from a circle of high expected inflation, large expected sterling depreciation, and high nominal interest rates? To secure a more virtuous circle of lower inflation, smaller expected depreciation, and lower nominal interest rates, would require some shock to the system. In the absence of Japanese style flexibility in the labour market, the possible shocks are a severe 1980-81 type recession or some official indication of a floor to sterling, to which the Prime Minister seems resolutely opposed. But even if she were induced by an

unexpected display of Cabinet virility to change her mind, interest rates would remain intermittently high until credibility was restored. The more likely prospect at present is lit-tle beneficial shock of any kind, a modest recession, if one occurs at all, and a continuing inflation differential

LOMBARD

An explosive recipe

By Michael Prowse

MR KENNETH CLARKE, Britain's Health Secretary, last week hailed the National Health Service Bill as one of the most important milestones in the development of the NHS. It is perhaps better regarded as a messy compromise which will alienate potential supporters of the Government without resolving fundamental health care dilemmas.

The legislation is supposedly a response to the 1967-88 fund-ing crisis, which led to a politically embarrassing spate of ward closures. Mrs Thatcher managed to defuse the crisis only by promising a far-reaching review of the financing of the NHS. Yet neither February's white paper nor last week's bill addresses this crucial issue. Mr Clarke's line that financial worries are over that financial worries are over because he won a respectable increase in this year's public expenditure roun

This really will not do. Rising aspirations, improvements in medical technology, and the ageing of the population are likely to cause steep increases in the demand for health care. Yet the Government remains committed to reducing the burden of taxation as a share of gross domestic product. This circle will prove desperately hard to square in anything but the short term.

There are two possible solu-tions. Right-wingers argue that the supply/demand imbalance can be corrected only if the public sector stops rationing health care. On this view, indihearth care. On this view, min-viduals must accept responsi-bility for deciding how much they wish to spend on health. The NHS should thus be privaised and replaced by a regulated private health insurance market. Subsidies would ensure that everybody could afford a basic level of care; those with means who wanted something better would have to pay for it. The crucial point s that there would be no over-

all cap on spending. Critics on the left regard pri-vate insurance as inhumane and inefficient. But they are not uniformly content with existing budgetary arrangements. The solution increasingly favoured in Labour Party circles is some form of ear-marking of NHS revenue. It would be possible, for example to finance health care either through national insurance contributions or a specific income-related health levy. The advantage would be that revenue, instead of barely keeping pace with price rises, would then automatically increase in line with earnings.
Paradoxically, Mr Clarke's
bill, while seeking value for
money, is likely to accentuate

resource constraints and increase pressure for radical changes in the financing of the NHS. The development of an internal market will necessitate heavy expenditure on new staff, information technology and billing systems. Most countries with competitive delivery systems spend a much higher proportion of GDP on health care than the UK and this is partially a reflection of higher administration costs.

Behavioural changes will be more important. In the past, health authorities and hospitals have been allocated bud-gets and expected to maximise health care subject to their cash constraints. The absence of significant competition has helped hold costs down. Salaries have been abnormally low nes have oven abnormany low by international standards pre-cisely because hospitals have not had to bid against each other for highly qualified medi-cal staff. The health service has also been able to econom-ise on non-medical items: compare NHS dowdiness with the opulence of US hospitals. In a competitive regime the

culture will be very different. Marketing and advertising will become crucial tools for genertreatment provided will rise steeply. The phenomenon of "supplier-induced demand" is a well documented feature of market recipies and is a well documented feature of market recipies and is a well documented feature of market recipies and is a well-documented feature. market regimes and is unlikely to be effectively countered by health authorities' new role as purchasing agents. Some of the strain may be lifted by an expansion of the small private health care market. But this does not alter the fact that Mr Clarke is greatly stimulating the demand for health care without relaxing its financing constraints. This is likely to prove an explosive recipe.

Chambers' status

From Mr Eric Dodson Sir, Mr Anthony Platt argues fully and convincingly for pub-lic law status for British chambers of commerce (November

I and others, during our peri-ods of service in the chamber movement, have long advocated this; my experience in visiting European chambers of commerce is the same as that related by Mr Platt. Indeed, I found it uncomfortable to try to explain to their officers the reason for our apparent feeble-ness. I continually had the impression that the UK Government resisted all attempts to achieve public law status by an expressed reluctance, as a matter of principle, to intro-

Eric H. Dodson, The Knoll,

London loses out

From Mr Stephen Moss. Sir, Mr Tony Travers draws attention (Letters, November 22) to one aspect of how London will lose out under the new Uniform Business Rate (UBR). Other important aspects deserve attention.

UBR revenues go into cen-

tral Government coffers for redistribution on a basis wholly unconnected with the size of the local business rate base. This removes local authority direct control over expenditure of business rates and motivation to talk to the business community.
Annual rate rises, capped

Sir, The Royal Mail has re-introduced Sunday collections because our customers told us they wanted it (Letters,

The service is a direct response to strong customer demand shown in national surveys, and backed by the Post Office Users' National Council as well as the Union of Communication Workers in a ballot of members. On Sunday November 19, the first day of operation in five districts, volunteer postal staff collected some 155,000 letters - which But this important invest-

goes to prove that demand. ment in improving service is just one of a whole range of measures we are aiready introducing to boost letter reliability for all our customers. including businesses, throughout the week, for which the Royal Mail is spending £65m in

ungenerously at 20 per cent plus inflation, will encourage yet more companies in London to relocate. Businesses wishing to remain will have an artificial disincentive to growth and mobility imposed upon them by a provision restricting the

duce any degree of compulsion.

Perhaps repetition of the arguments will eventually pro-

duce some result by the time of the assumed completion of the

20 per cent a year ceiling only to those in occupation at April 1 1990. Businesses moving after that date will instantly pay the full rate of UBR. What has London done to deserve this treatment? Stephen Moss,

Kensington & Chelsea Chamber of Trade & Commerce, Cromwell Place, SW7

Confidence-building by mail

the next 12 months alone:

Making more first collections by van instead of using postmen on foot, and improving collection arrangements; Improving deliveries in areas where we have difficulties in recruiting and retaining

> • Improving delivery service Postal Planners, showing best posting times to connect with transport links, which are being delivered to all 24m ses in the UK; • Faster direct road links for

> high volume mail between important districts. We are confident that these combined measures will continue to build customer confidence in the Royal Mail's ability to give a "decent, uninterrupted service."

S.G. Hanno Royal Mail Letters 33 Grospenor Place, SW1

'A vague law, applied vaguely'

Sir, Peter Montagnon, on rules of origin (November 22), gives a good description of a difficult, important area of law in international trade. But some confusion appears to have arisen over the Kyoto

But, before then, consideration should again be given to onvention issue. The EC's rules on origin are extending the activities of Brit-ish chambers, initially even on encapsulated in council regulation 602/68. These rules came into force on July 1 1968, some a voluntary basis - for exam-ple, by registering particulars of partnership and individual six and a half years before the businesses; a most useful pro-cedure for the protection of the EC became a party to the Kyoto convention and some nine years before the specific rules on origin, contained in an public which was lost with the ill-judged repeal of the Busiannexe to the Convention, were accepted by the EC.

The council regulation has not been amended by the terms in the convention, and thus it cannot be said that "The EC uses the internationally agreed Kyoto convention when deciding on its origin rules." (It is understandable that your correspondent was under such an impression, given the rather woolly attitude of the European Commission on the sub-ject.) The relationship between council regulation 802/68 and the Kyoto convention has

been made clear.

of origin are similar, the crite-ria used for such determinations differ markedly.

The European Court of Justice has declared, for example, that one of the criteria used in the Kyoto convention as being be so used under council regulation 802/68. In a recent case before the European Court it was argued that the EC is bound by the Kyoto convention, and must thus change its rules on origin. Judgment has

not yet been given. It is lamentable that the EC, one of the largest trading blocs in the world, has been unable to resolve this question. As Peter Montagnon correctly says, the present situation gives rise to cries of "Protec-tionism" from third countries; difficult to silence. I hope the proposal put to the Commission on changes to the rules on origin will bear some fruit, and that the ultimate non-tariff barrier of a vague law, applied

Fergus Randolph, Avenue de la Joyeuse Entrée 8, B-1040 Brussels, Belgium

vaguely, will change.

Public purchasing in the EC

From Mr Tasos Bisopoulos. Sir, Guy de Jonquières's report on public procurement in the EC (November 13) is a comprehensive account of this sector in the European economy, but gives only the view from Brussels, and scant consideration to developments and prospects in each EC country.
The differences in public

purchasing among member states is a reality overlooked by the "lawyers's approach" adopted by the Commission. This approach has proved unworkable for 20 years.

Existing differences in structure and attitudes in each country have persuaded public officials and contractors that any honest attempt to open up this market would not be followed by other countries. Furthermore, in the UK there are only 700 large procurement entities which deal with bulk purchases and value for money; in Germany and Italy there are more than 20,000 similar purchasing entities which, being smaller, are free to "buy local," restricting opportunities for firms from other member states. Mrs Thatcher rightly stressed this reality in the recent "Walden interview."

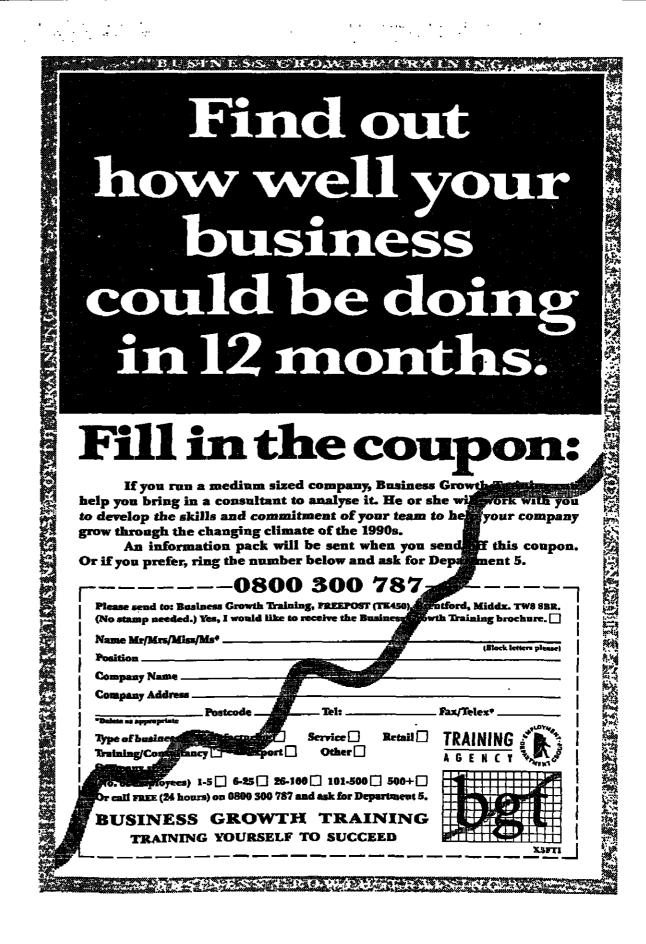
Instead of the Brussels uni form approach, a localised strategy would be more effi-cient. Commercial incentives for contractors to bid in other states, decentralised bodies which would monitor this area with rewards for those who comply (and punishments for infringements), would build on Commission policy of promo-ting more information to con-

Do we really mean to bring about a prosperous united Europe if we cannot even agree on such simple steps? Tasos Bisopoulos 38 Doughty Street, WCI

Healthy wealth

From Mr R.J. Shanks. Sir, Mr J. Rowden (Letters November 23) may be right to say that "only healthy economic growth can provide the wealth needed to promote environmental improvement." The word "healthy" is important. So much economic growth and "progress" is unhealthy in environment terms.

R.J. Shanks, 6 Rodney Gardens, Eastcole,





FINANCIAL TIMES

Monday November 27 1989



Janet Bush on Wall Street

A lesson for stock analysts

PERHAPS the oddest stock last week was Texas Instruments. On Tuesday, it first slumped on news that the company would take a \$55m pre-tax charge in the fourth quarter and that it was planning to cut its workforce by about 1,500 people. Then, mysteriously, the stock jumped to close \$1% higher at \$31. The fireworks really started on Wednesday when Texas

Instruments jumped \$5% to \$36%. By then it had been reported in US morning editions that the company had been issued with a Japanese patent which it believed covers "virtually all integrated" cir-

cuits made or used in Japan. Although Texas Instruments Although Texas Instruments was very low key about the whole thing, the community of Wall Street analysts was very excited, judging that the patent could be worth as much as \$700m a year in additional revenues. All this is fascinating in

But the way the news insinuated itself into the consciousness of the investment commu-nity is a tale in itself. It took an exceedingly long time for Wall Street's army of stock analysts to find out about this

dramatic development.
The news first hit the world's financial press overnight on Tuesday, when it appeared on the front page of the Japanese newspaper Nihon Keizai Shimbun. Notwithstanding the fact that most major Wall Street investment banks have offices in Tokyo and presumably read the local business press, the news did not filter into the company's share price until the afternoon session on the New York Stock Exchange – and then only when representatives of Nomura Securities in Tokyo called US analysts to ask the for a judgment about what the potential impact could be.

What is even more surprising was that the patent was actually issued on October 30, fully three weeks before any-body on Wall Street knew

When asked about the story by the Wall Street Journal, Texas Instruments rather sweetly said that they had not announced it because they did not want to "blow their own

In these days of lightning communication and instanta-neous transmission of knowledge from Tokyo to Lower Manhattan, it is rather strange that the army of stock analysts at brokerage houses were so slow on the uptake. Or is it? Analysis have been known

to get it wrong on so many occasions that a little slip-up like the one over Texas Instru-ments should not be particularly surprising.
One of the most celebrated examples of analysts failing to

do their job properly was the case of Atlantic Richfield. In 1969, its stock was trading at around \$120 a share. Only a year later, it had plunged to \$48. The reason for this is that nobody on Wall Street had figured out a crucial error in the design and planning of Atlan-tic Richfield's Alaska pipeline: the company had not taken into account the migration path of the caribou, which

eventually led to a complete redesign of the pipeline. Mr Tony Hitschler, now head of Brandywine Asset Management, a small Wilmington, Delaware money management concern devoted to investing in stocks with low price/earnings ratios, used the Atlantic Richfield case in an essay in 1980 highlighting one perennial shortcoming in the community of stock analysts. "The 'caribou' eventually

visit most stocks, and when they visit one with a very high P/E multiple, the consequences can be drastic. Yet most ana-lysts continue to extrapolate past earnings increases into the future," he wrote.

There is a famous anecdote told on Wall Street about Mr Norton Simon, the wealthy industrialist, who, it is said, sat in his Jensen outside Grauman's Chinese Theatre - one of the most famous movie houses in the world and now called Mann's since it was taken over - on Hollywood

called Mann's since it was taken over - on Hollywood Boulevard.

Using a hand-clicker, he counted in the crowds going in to see the movie Star Wars, On the strength of his research, he and his wife hought a large Berin and his wife bought a large holding of shares in Twentieth Century Fox, which turned out to be an enormously good investment.

Perhaps his bands-on approach to equity research provides a lesson to the army of professional stock analysts on Wall Street and might help them to avoid running into car-

Gandhi's Congress faces defeat

By David Housego in New Delhi

INDIA'S Congress Party, led by Prime Minister Rajiv Gandhi, appeared to be heading for defeat last night in a general election that seems likely to herald a period of political

The possibility of defeat cast doubts on the future of Mr Gandhi as party leader and on the Gandhi dynasty which has held power since India's inde-pendence from Britain in 1947 with one brief, 29-month inter-ruption in 1977-80. Early trends in the counting of votes suggested that the Congress Party would win about 200 of the 525 seats being contested, compared with the 415 it achieved in a landslide victory

in 1984. Though the Congress would remain the single largest party in the National Assembly, the main opposition parties would hold sufficient seats to block

THE British Government is

making urgent efforts to

arrange a bank loan of around £2bn (\$3.15bn) to finance con-

tinued Saudi Arabian pur-chases of military equipment under the UK's huge Al-Yama-

The loan, which would be extended by British banks and

backed by the UK's Export Credits Guarantee Department.

would make up for sizeable

Saudi payment shortfalls caused by weak oil prices.

It is not yet clear whether the borrower would be the Kingdom itself or the contrac-

tors involved in the project. But observers in Riyadh say a

new financing package is now essential for the continuation

in its present form of the Al-Yamamah deal, under which

Britain agreed to supply Saudi Arabia with 120 Tornado

fighter aircraft and a range of other equipment, including jet

trainers, minehunters, helicop-

Without such a package or a sharp rise in oil prices, it is likely that deliveries of hard-ware to Saudi Arabia will be

slowed down, and it is even

possible that parts of the con-tract might be cancelled.

The way the issue is resolved will thus be of critical impor-

tance for British Aerospace, as

night of November 17. Nobody

is frightened any more. Nothing is sacred. The taboos are

Even the police are speaking

During yet another massive meeting on Letenske Plain, a young policeman yesterday asked for understanding from

"I was taught to fight crimi-nals, not to beat up peaceful demonstrators," he told the

snow-covered tens of thou-

"We cannot judge what we are doing. It is Them Up There

"Who are they? Who are they?" the crowd spontane-

such people could be consid-

In Hong Kong, there is growing unrest among the boat peo-

ple in the camps. This, and protests against compulsory

repatriation, could make it more difficult for the colony's

security forces to start repatri-

More than 2,000 boat people

ation without a violent reac-

started to refuse government food supplies at the weekend,

although their action falls

short of a full hunger strike

because they have access to

privately supplied food. In a separate development, there

was a pitched battle in a tented

camp between rival groups

who are giving the orders."

ously questioned back.

Continued from Page 1

ered humanitarian.

disappearing.

the crowds.

ters and base facilities.

mah defence contract.

its attempts to form a govern-

In Mr Gandhi's own constituency of Amethi in the north, re-polling is to take place today in 97 districts - 10 per cent of the constituency - after the opposition alleged "massive rigging." The local district magistrate and the superinten-dent of police have both been dent of police have both been

Opposition representatives claimed last night that the National Front, the group of opposition parties under Mr V.P. Singh, would be in a posi-tion to form a government. The Front is likely to emerge as the second largest group in the National Assembly but would need the support of both the Hindu militant BJP party and the Marxists to form a govern-

Most observers believe oppo-sition consultations over the

UK seeks £2bn finance to save

lead contractor for Al-Yama-

mah, and for a number of other

UK companies involved in the deal, including Westland and

Vosper Thornycroft.
The first Al-Yamamah agree-

ment was initialled in 1985, but

it was extended under a new

contract last year to become Britain's biggest ever arms

deal, with a possible final value well in excess of £15bn.

barter arrangement under which Saudi Arabia is paying for Al-Yamamah with 400,000

barrels a day of oil. The fall in world oil prices in 1985-86 has

resulted in a significant mis-match between the value of

British deliveries and the flow

of cash from the Saudi crude,

and an increasing deficit on

Talks on the problem

between the two governments and the companies involved

have been going on for many months in considerable secrecy. But the British Gov-

ernment is now understood to

be anxious to put new financ-

ing arrangements - entailing either a loan or a significant

increase in oil liftings - in

place by the end of the year. Mr Alan Thomas, head of

defence export sales at Britain's Ministry of Defence, is believed to have pressed the

"I don't know. I don't

know," the young man replied, copmpletely lost for an

But the crowds knew what they wanted. "Enough of Them! Enough of Them!" And as if they still have to shake

off the pent-up anger which

had accumulated over the

years, many of them proceeded

to form a long human chain across to Hradcany. But they still wanted more.

And they will have it today, when the Czech and Slovak

nations will stage a general

gesture, stood on the podium yesterday with Mr Havel and Mr Dubcek, nearly spoilt his

from Vietnam's Haiphong and

Quang Ning provinces.
Hong Kong wants to act
within two or three weeks so

that enough Vietnamese arrive back in their home towns and

villages by next spring to deter more boat people from setting out when the weather and

Officials fear that at least

30,000 more will arrive by next

summer unless they are out off

repatriation programme. Hong Kong's local legislators have

said they are not prepared to

approve the fresh funds needed

for them to be looked after. Around 35,000 have arrived in the past year, including an

18 64 C-Cloudy Dr-Ortezio F-Fair Fig-Faig H-Hall R-Rain 17 63 S-Sum Si-Steet Sm-Snow T-Thumber

tides improve.

WORLD WEATHER

Britain and Vietnam agree cash deal

Mr Adamec, who in a brave

Czech spirit blooms continued from Page 1

Difficulties centre on the

armaments deal with Saudis

By Andrew Gowers in Riyadh and Victor Mallet in London

coming week would focus on the National Front forming a minority administration with support from the BJP on the right and the Marxists on the left. This has long been seen as the most unstable arrangement that could emerge from the

election.

The Congress Party strengthened its position in the south but had major reverses in the north and setbacks in the east

and west.

The defeat of opposition-backed state governments in the south and of the Congress at the national level led commentators to describe the election "as a vote for change." In the nearth Congress was doing the north Congress was doing badly in the Hindi speaking states of Rajasthan, Madhya Pradesh, Bihar and to a lesser extent Uttar Pradesh.

A surprise was the success of the BJP which is likely to

issue when he met Prince Sul-tan Ibn Abdul Aziz, the Saudi Defence Minister, during a visit to Riyadh earlier this month. The Saudi Government

has apparently yet to give its

response.

"Unless there is a decision by the Saudi Government substantially to increase the amount of oil liftings or to put in place loans of significant

value, the provision of addi-

tional hardware will slide sig-nificantly," said one official. The amount of Saudi arrears

has not been disclosed. But to keep Al-Yamamah on track, it

is thought that Riyadh would

need to boost its commitment of crude by at least 100,000 b/d,

an increase that the Saudis may well find difficult to allow

given the current state of the

oil market and competing demands for funds from Saudi

government departments other than the Ministry of Defence.

In London yesterday, the British Defence Ministry made

no direct comment on the issue, saying that the govern-

ment-to-government arrange-ments had to be treated in con-

fidence. But Whitehall officials

privately acknowledge that financial problems are affect-

ing Al-Yamamah and that

Britain may have to slow deliveries as a result.

entree into public view.
"I am glad that Monday's
strike will be a political manifestation and not a confronta-

tion. But there is no need for a two-hour strike. Just a couple

The crowd were going to have none of this. Father

Vaclav Maly, a long-serving opposition figure who has now been catapulted into the limelight, chastised the Prime Minister.

"We will not use the meth-

ods of the Communists to tell the people what to do. Let the strike committees decide," he

said. The crowds loved these

words, words which would have been unutterable even a

unseasonally high total of 335 this month. There are now

44,000 boat people in camps who are being screened to

determine if they are genuine

refugees qualifying for resettle-

ment or are economic migrants who, under a Hong Kong pol-

icy introduced 17 months ago,

due to go home. So far only 500

have been voluntarily repatri-

ated. Hong Kong has agreed terms

for the compulsory repatriation

with Vietnam.

increase its strength in the new Parliament from 2 to over 70. The BJP has been cam-paigning on a platform of Hindu fundamentalism

Overall, the swing against the Congress was between 8 and 10 per cent. In the north, the minority Moslem population seems to have shifted against the government as a result of recent Hindu-Moslem clashes over plans to build a Hindu shrine at Ayodhya on

the site of a mosque.

The election, staggered over three days since last Wednesday, was accompanied by unprecedented violence in which more than 100 people were killed and by widespread electoral fraud. The Chief Election Commissioner ordered repolling in 1,124 districts after the first two days of voting. Background, Page 2; Editorial comment. Page 18

Defence has **'only small** role' in US

in East/West tensions, will make only a small contribution to reducing the US budget defi-cit in the immediate future, Mr Richard Darman, the Budget

This has big implications for the prospects of cutting the deficit, which is generally regarded as one of the US's economic priorities.

This compares with the \$35bn overall cuts which Mr

Mr Darman sought to distin-guish the limited size of short-term cuts on defence expenditure with the possibility of "substantial savings over five years, though nowhere near as large as people are

He discounted recent reports of \$150bn and \$180bn savings in the early-to-mid 1990s. which, he said, were in relation to Defence Department plans and not in relation to the likely available resources. The implication is that some of the proj-

way unrealistic.
Mr Darman's estimates of Mr Darman's estimates of defence savings also indicate a tight squeeze on domestic programmes stace there is no sign of President George Bush moving from his "no new taxes" pledge. The Budget director claimed that "the odds are higher than 95 per cent that we'll be able to present a budget without new taxes".

enue adjustments of the type which accounted for two-fifths of the \$14.7bn deficit reduction for fiscal 1990 approved by Congress last week.

spending, Mr Darman last week proposed setting aside "a limited pool" of money for high priority programmes. Heads of departments and agencies would appear before President Bush to argue their case for a share of this pool. OECD report on US, Cheney set to brief Nato, Page 3

budget cuts By Peter Riddell, US Editor, in Washington

THE "peace dividend", the savings in US defence expendi-ture as a result of the lowering Director, has suggested.

Speaking as the Bush

Administration prepares its budget for submission on January 8, Mr Darman warned against expecting early large cuts in defence expenditure.

Mr Darman said that in the near term (referring to the 1991 fiscal year starting next October) defence savings were going to be "small, of the order of \$10bn, not the kinds of large numbers that people are

Darman has estimated will be necessary to get down to near the target of a \$64bn federal deficit for fiscal 1991, as laid down in the Gramm-Rudman

assuming".

Mr Darman said the Pentagon budget is "very, very slow to change in either direction. If it's going up, it doesn't go up as quickly as people think. If it's coming down, it doesn't come down as quickly as peo-

ected cuts might be from planned totals which were any-

get without new taxes".

There may still be minor rev-

In an effort to hold down

should be sent home. Judging from the results of 6.000 people screened so far. only about 10 per cent will qualify as refugees, which means that about 40,000 are by the start of a compulsory

Finance chief set to quit Continued from Page 1

new mandate next March when his current term runs out. Mr Pierson, who has been one of the principal architects cesses of the aircraft group, appears so far not to have made up his mind whether to seek a new term or not.

Should he decide to leave, the consortium is likely to face further upheaval in the form of a a new power struggle between the four partners. The four partners decided to give the go-ahead for the new

in Frankfurt which ended last Saturday. The consortium was widely expected to launch the new programme before the end of this month. Airbus has already secured

107 firm orders for the A-321, which costs about \$45m per air craft, and additional commitments for 74 more aircrafts. The group originally said it needed at least 40 firm orders to launch the new programme. Airbus said yesterday it was

The four partners decided to give the go-ahead for the new banks the details of the funding for the A-321 programme.

Deciphering gold's mixed signals

The financial markets are rightly puzzled by the confus-ing signals coming out of the gold market. At a time when base metal prices are wilting on recessionary fears and on recessionary tears and peace is breaking out all over the place, the gold price has suddenly woken up from a two year old slumber and risen by over \$50 per ounce in little more than a month. The FT Gold Mines index, which often

seems to be in near terminal decline, has jumped by 45 per cent over the same period. Predicting where the gold price goes next is a mug's game. But that does not mean that the yellow metal's price fluctuations should be totally ignored. The jump in the price may well be just an aberration, but it could just mean that some investors want more gold, like some people want a bit more disaster insurance. Gold thrives on uncertainty, and while the long-term impact of any cutback in defence spending around the world is positive, there is more than an

average amount of political and financial uncertainty around, currently.

For a start, the 15 per cent jump in the gold price since last month's one-day drop of 7 per cent on Wall Street, contrasts with the minimal rise in the celd union effort the Device. trasps with the minimal rise in the gold price after the Dow's 23 per cent one-day fall in 1987. The recent rise in gold could be another signal that the equity markets are not in as robust condition as two years condition as two years. ago. Certainly, the US corporate sector is more highly leveraged than for a very long time, and one of its main sources of refinancing - the

junk bond market – has almost dried up.

The jump in the gold price also does not fit easily with the conventional wisdom that global inflation will decline next year. Perhaps, gold is reacting to the fact that real interest rates are considerably lower than a year ago. Soviet inflation is accelerating, or a perception that the Federal Reserve is now becoming more worlded about recession than

However, gold is probably a better barometer of exchange rates than anything else, and the strongest signal that it may be transmitting is that the dollar's period of surprising strength is over.

Rothmans Int'l

When Swiss-based Richemont's offer for Rothmans closes in less than a fortnight, almost certainly leaving Riche-mont with 69 per cent control, the real debate will have only just begun. Richemont's tantal-ising offer document promised

Rothmans Share price relative BAT 100 VW

talks with Rothmans about enhancing shareholder value. Given both parties' extreme reticence, what that means is a matter for pure conjecture. But one can analyse the forces at

While industry-wide ciga-rette volumes in all the major first-world markets where Rothmans operates declined by between 2 to 4 per cent in 1988-9, its tobacco business is far from entering a terminal phase. One reason is the opportunities remaining in the Asia-Pacific region. Another is that with about 28 wholly-owned cigarette factories worldwide, including 10 in the European Community, it still has scope for rationalisation.

1980 82 84 86 84

its margins have already risen, from 9.8 per cent in 1986, to 16.5 per cent now. The corol-lary though is that Rothmans' tobacco side still requires very active management. Not least this is because of the potent competitive threat posed in most tobacco markets by Philip Morris. But the logical implication is that there seems zero likelihood of any further diversification by Rothmans itself beyond its existing fields.

A second issue is Rothmans' £480m pile of cash. Rothmans wants to make further acquisitions in luxury goods, to add to its 55 per cent stake in Dunhill, and the 99 per cent of Cartier it jointly owns with Richemont. But the evidence shows that in ests' semi-private status leaves them under no pressure to spend fast. Richemout's balance sheet shows £284.3m in cash and conservatively valued securities; it has about 25 per cent of Mr Donald Gordon's TransAtlantic Holdings, which showed £209.5m in cash and short-term investments in its

The third issue is value. Assume a separate flotation of Cartier, on a multiple of 19 times earnings, and according

to Hoare Govett, Rothmans could be worth 19.35 a share, a long way from Friday's closing price of 25.52. In theory, Richemont should be eager to close the valuation gap, by selling or floating the luxury goods inter-ests. The problem, for the hold-ers of the 31 per cent of Rothmans likely to be left in outside hands, is that their notions of shareholder value could fail to coincide with

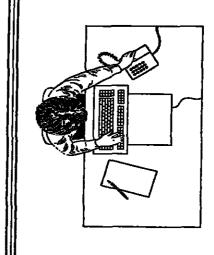
Buyouts

Last week's proposed take-over of UK Paper by Metša-Serla of Finland revives lurking doubts about the whole principle of the management buyout. When it was bought out from Bowater, UK Paper was bailed as a heroic step in was named as a nervice seep in the revival of the independent UK paper industry. It has now decided that it is too small for independent life after all, and is heading back into the embrace of a big corporation.

There are numerous paral-lels: Caradon, bought out from Reed and sold to MB Group; or Premier, bought out from Cad-bury and sold to Hillsdown Both UK Paper and Caradon had previously gone public again within the conventional two or three year period, thus realising very large sums on paper for the managers. These sums - plus the normal premium for takeover - were then converted to hard cash by selling out.

If buyouts are such a virtuous process of rejuvenation, it is not clear why managers should call a halt in this way should can a near in this way rather than leave their money: in and continue to multiply it. Indeed, it is not quite clear why they should go public in the first place. Granted, institutional backers generally want the option of taking preferance. want the option of taking pres-its after five years at most. But Unipart, for instance – bought out from Rover in 1987 – has just quietly arranged a re-lev-eraging exercise, thus satisfying its original backers and leaving control with the man-

The cynical view of the standard three-year buyout - a burst of unwented effort followed by a relapse into corporatism - need not be the whole story. Both UK Paper and Caradon will end up with more appropriate parents than before, even if the method of changing ownership seems rather clumsy. It is also true that the shock of change, even if temporary, can be a healthy stimulus. But we have heard enough of the buyout as an exercise in courageous self-de-termination. It is just a way to make a killing, quicker than





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FINANCIAL TIMES COMPANIES & MARKETS

Monday November 27 1989



INSIDE

Man who must control the flow



The primary duty of Mr lan Byatt (left), Director General of Water Serrices, is to make sure that the soon-to-be-privatised water and sewage businesses of England and Wales can carry out and fund operations. His principal veation is the cap on water company price increases, which he will

both set and review. It sounds simple - and advocates of investment in water believe the Water Act ensures solid returns for shareholders. Yet, in spite of these apparent guarantees, Mr Byatt has already found himself at the centre of political and financial debate. Page 26

Japanese banks feels the pinch Japanese banks' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting half-year figures. The increases in interest rates pushed up the cost of money at a time when the proportion of funds raised at market rates, as opposed to artificially low regulated rates, is rising rapidly due to liberalisation. Stefan Wagstyl reports. Page 25

Private seats on the gravy train



abound in the Euromarket, Everyone agrees there are just too many banks chasing too little business. But, explains Andrew Freeman, many of the larger Eurobond houses have quietly honed ways of improving their overall profits performance. More than a handful of houses admitted last week that in 1989 they have done rather more private placement than public business. They say they are making good profits in this area, so there is much less reason to believe that they are planning large cuts elsewhere. Why shut down a syndicate department when its public struggles disguise the possession of a first class seat on a gravy train? Page 22

Market Statistics

Base lending rates Exponented terrore FT/AIBD int bond svca Money markets New Int band issues NRI Takyo band index

Camfil Coats Viyella

LT Credit Bank 25 Nippon Credit Bank 25 Pearl Group 26 Saint Gobain 25 Tootal

Dark side of the enchanted forest

James Buchan examines the problems facing International Paper

pare a thought for Interna-tional Paper. The laughingstock of the world paper industry for a generation, the company has recently been looking good. For 10 years, it poured astonishing amounts of capital into a run-down network of pulp, paper and board plants. And it is reaping the benefit. With booming markets last year, International Paper's sales increased by 37 year count to \$0.5 km. increased by 23 per cent to \$9.5bn and its profits almost doubled to

\$754m. But just when the company's hick really seems to be mending, there are ominous signs in the market. US economic activity is slowing down and paper custom-ers are fomenting price competition in the prospect of new capacity: several new or reconditioned paper-making machines start up next year and in 1991. Already prices are stagnant or falling in the company's main commodity markets, such as linerboard (used for boxes) and uncoated white papers for printing and writing. Georgia-Pacific's \$3.5bn take-

over offer for Great Northern Nekoosa, though it has yet to be accepted, could create an aggres-sive new competitor with \$150n in sales and the power to disrupt these commodity markets where International Paper has big but not commanding shares.

Above all, the company has no friends at all on Wall Street. the world's largest paper company and the biggest corporate

on its. 28 mills and on acquisi-tions in the 1980s for all the value it has created in the stock market. At just under \$50 a share, International Paper is worth \$5.4bn on Wall Street: billions of dollars of capital spending bave gone up in smoke.

For Mr John Georges, the

chairman of International Paper, Wall Street's attitude is disheart-ening. In an interview last week at International Paper's head-quarters in the New York sub-urbs, Mr Georges, who is 58, said the stock market may be too bearish about world paper mar-kets and is certainly missing the point with International Paper.

n unprecedented capital A programme, a big push into Western Europe and a persistent move to more specialised papers and board have made the company much better equipped to withstand a downturn, he says. International Paper is not the boom and boast cyclical

company it was.
"People remember the severe recession of the early 1980s," he says. "They're using that as a benchmark for us and my gut feeling is that it's not going to be so bad."

International Paper, which is

International Paper could have landowner, began life at the end burned the \$10.75n it has spent of the 19th century as a conglomof the 19th century as a conglom-eration of New York and New England paper mills. For two generations, it bought timber-land, cut trees and built mills: it was evidently managed without distinction but without great mishap. Towards the end of the 1960s, however, the company attempted to diversify and did

run into problems.

It brought in a retired chairman of AT & T, who was succeeded in turn by professionals from Mobil, GE and DuPont. International Paper became a lab-oratory for managerial experiments cooked up in the ing-houses of management talent.
There was more diversification.
The mills, mostly built in the 1920s and 1930s, were neglected. By the end of the 1970s, the com-pany probably had the highest operating costs in the industry. It was slow, weak and defensive. It was Mr Edwin Gee, who

became president in 1978, and Mr Georges, who arrived the next year and took the company back to paper. DuPonters both, they more than \$2bn by selling off businesses: oil and gas reserves, medical products, financial services and, in 1981, the big and volatile Canadian newsprint operation. With the money, and with internally generated profits, they bought a good linerboard mill and acres of southern pine

forest. In addition they rebuilt the collapsing paper- and pulpmaking machines.
Their timing could not have

been worse. Interest rates were soaring, and a \$600m linerboard mill in Mansfield, Louisiana opened in 1981 punctually in time for recession. A bungled \$500m conversion of an old mill in Geor-getown, South Carolina, cost the company huge losses.

ut the investment pro-Bgramme, which Mr Georges continued when he took over as chief executive in 1984, has worked wonders for International Paper's cost base. And in a commodity business such as most of the paper industry, low production costs are far more important than size.

While fighting to be low-cost producer in the commodity grades, Mr Georges is also trying to take International Paper into areas of modest growth, higher

purchase of Hammermill Paper in 1986. This gave International Paper a line of well-known fine papers and a superb mill at Riverdale near Selma, Alabama. The company is trying to develop proprietary products in its bleached paperboard business, which is growing handily because of the increasing use of cartons by the drinks industry.

profits and lower cyclicality. The big move came with his \$1.1bn

photographic papers business in the US (for \$284m). It then added a manufacturing base in Europe with the purchase of the Ilford division of Ciba-Geigy in the UK last year. This is a slow-growth business but relatively predict-Most important, International Paper spent \$320m on the French paper company, Aussedat Rey, earlier this year and will spend a

making capacity to turn the com-pany's Saillat plant into an integrated mill. In a European market where barriers to trade seem to be fall-ing like ninepins, Mr Georges

further \$300m to develop pulp-

And in 1987, it bought the Anitec. believes that Saillat could be in a powerful position as "the lowest-cost mill on the continent." But Wall Street is so fixed on the prospects of a price slump that it is not listening. For International Paper to increase its value, Mr Georges must show he can take the company through

> Nobodys knows this better than he. "My own guess is that by mid-1990, we'll see a stabilisa-tion and an upturn," he says. "That will help the company, because it will demonstrate to all those doubters in the financial community that we can weather

next year's weak market without



Distance lends distortion to the view

A story that made us laugh like anything when I was at school concerned a man who was kitting himself out to go elephant hunting. He went to the Army and Navy stores and ordered a powerful telescope and

a pair of tweezers.
"Certainly, Sir," said the shopman; "but-I wonder if I could ask you to tell me how these will help to hunt elephants."
"It's quite simple," said the huntsman. Till carry an empty matchbox, of course. Then I'll sit in a tree until I see an elephant, look at him through the wrong and of the telescope, pick him up with the tweezers and pop him in the box."

I had forgotten this story years ago; but for some reason it has come bubbling insistently back to the surface while I was wading through the new OECD report on the US economy - an experience a little like swimming in heavy treacle. There is no direct parallel, but enough disregard for the obvious, misplaced ingenuity and plain nonsense to kick the subconscious awake

The policy recommendations able to change them, and can safely be ignored. The interest is clearly intended to lie in the ana-lytic chapters addressing such questions as competitiveness and industrial policy, productivity, tax incentives, and deregulation and its effects. There is some

interest here, but not always of the kind intended. Competitiveness interests the Americans to the point of obses-sion, but it is not very helpful for the OECD to join in the popular sport of drawing up league sport of drawing up league tables. Thus there are some agonised paragraphs exploring the fact that the US share of world output is much bigger than its share of exports, which goes into such details as continued use of the inch scale, and the diversion of prescrib offers into defence. of research effort into defence.
These are interesting questions in themselves; but are they worth exploring when there is not even a mention of what is obviously the main reason for this gap? It has nothing to do with competi-tiveness, but is simply the fact that the US is much the biggest economy in the world.

The right comparison would not be with Japan or Germany amount to saying that it would but, say, with the EC as a single be a good idea to stick to present policies unless it proves advissaries of output as the member countries do in sum, but a much

smaller share of world exports, since all the exports inside the community would no longer count. This is part of a section on microeconomics, and supports my prejudice that a microeconomist is often a man who cannot see the wood for the trees.

Again, there is an agonised dis-

again, there is an agonised dis-cussion of productivity. The US, like Britain, has enjoyed a jump in productivity during the 1990s, and probably for rather similar reasons. The OECD is worried because it cannot explain this change in detail, and even won-ders if it has hympostal et all change in detail, and even won-ders if it has happened at all.

This doubt, it emerges from an appendix, is based on a plain howler. The trouble is that the tramendous improvement in the design and speed of computers tends to flatter the whole picture. as many Americans have pointed out in the past. Today's lap-top will do the work of a roomful of heavy equipment 20 years ago, but the manufacturing problem is totally different, something too radical to be discussed as an improvement in efficiency, which is essentially a linear process. So far, so good; but the OECD

goes on to worry about the index number problem and reaches a wrong conclusion. When a rapid

ducers to cut prices heavily, it becomes hard to compare the level of output in two periods, since this is normally done at constant prices. This produces a startling result with computers: the share of computer output in total US manufacturing this year is four times higher when meais four times higher when measured at 1982 prices as at current prices. "Conversely," the appendix goes on, "it is underweighted prior to the base year. Productivity growth is thus biased downwards before the base year and upwards thereafter. The productivity pick-up may therefore be an artefact of the choice of base year."

This is just plain nonsense. The effect of the weighting prob-lem is to "overstate" growth both before and after the base year, as a moment's thought will show. This whole discussion is an arte-fact of muddled thinking, and distracts attention from problems. How, for example, to you mea-Census Bureau measures it in megaflops, or operations per microsecond, for want of a better unit, but this begs all sorts of questions). How, for that matter, do you measure output of ser-vices except in man-hours? And if these questions get vague or tautological answers, do you know what you mean by productivity? Or, for that matter, by inflation? One can understand the OECD being a little evasive on these basics, since if the numbers are questioned, so is its entire world; but this does not explain a dis-cussion of leveraged buy-outs which fails to mention bankrupt-cies, and concludes that they may help efficiency by making investment decisions more responsive to the market and by removing these decisions from the influence of fund managers. One suspects a bias in favour

of deregulation. Equally, the OECD should surely face some of the big questions which are now actively discussed in the US. There is much talk of "progress" in "eliminating imbalances", but next to none of how far either of the twin deficits actually matter in the larger scheme of things. in the larger scheme or the scheme of the scheme of the scheme or the sc ning to wonder. Of course there are true and helpful things in the report, and some startling facts

- for example, that debt service peaked as a proportion of total US public spending five years ago, contrary to most popular rhetoric.



By Anthony Harris in Washington

But this is not enough to dis-arm my suspicion that the OECD, like any bureaucracy, tends to over-estimate the importance of government policy, and still more the importance of various arbitrary norms which are stated as policy objectives. Yet the real ture and human capital do not get the attention they deserve and demand.

So there you have the view of the OECD in Paris as seen from Washington. It remains only to pick it up with, my tweezers, and pop it into a matchbox.

Economics Notebook

Divergent views on unity

chance that next month's European Community summit in Strasbourg will set up an inter-governmental conference to discuss a new Treaty charting the course toward state-ing the course towards Eco-nomic and Monetary Union, it is equally likely that several heads of government will have some reservations about the enterprise they are launching.
Mrs Thatcher, The British
Prime Minister, of course,
apparently stands alone with
her ideological objections to further transfers of economic sovereignty to the Community. Some other leaders ready to

accept the principle will, none-theless, be wondering whether the Community should take on such a difficult task when a great deal of attention must be given to developing its rela-tionship with the 'new' East. ern Europe. Others may be worried about the implications of it all, at least as they have been set out in the Delors Report

Mr Karl Otto Pöhl, president of the West German Bundes-bank, appeared to be counting on such misgivings during an interview on BBC television eight days ago when he doubted that many European governments would be pre-pared to accept West Ger-many's terms for creating a European Central Bank.

Bonn would naturally insist that the ECB be statutorily independent, as is the Bundes-bank, and that its dedicated priority must be to contain inflation to an absolute minimum. Mr Pöhl was clearly against rushing towards EMU, preferring, instead, a two-year waiting period to allow comple-tion of the European Monetary System and some of experience of living with a free capital

ovement regime.
If the inter-governmental conference is launched in the second half of next year, its his audience that the building

work would begin under the chairmanship of Italy which has no shortage of thinkers on the subject in the Treasury and the central bank. Unlike some of the nation's politicians, they are by no means romantic dreamers, but people who are convinced for practical economic and political reasons that the achievements of the single market cannot be preserved without clearly defining

the EMU objective and steadily moving towards it.

One aspect which the British government would do well to ponder is that their political premise is wrapped in anxieties about sovereignty. Rather than sharing Mrs Thatcher's worries about losing it, these Italians want to claw some back. Whereas the UK prime minister appears to regard her Chancellor's monetary policy as an entirely autonomous choice, the Italian central bank believes that everyone's free-dom of manoeuvre in the Community on monetary matters has been, and remains very strictly circumscribed by the

Bundesbank and the power of

the Deutschemark. Rome is the first to admit that German dominance of the EMS has served well in the 1980s in narrowing inflation differentials between member countries. But the Italians believe it will not do for the future, for both political and economic reasons. Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, apparently sent Mr Pöhl's eyebrows well up into his hairline when he hluntly stated some of these views at an Italo-German

Forum last month. The Governor defly played the sovereignty card – with-out ever using the word – as part of a reasoned argument against Mr Pöhl's preference for leaving the DM as the EMS

of the Community is founded on "the basic principle of par-ity," and argued that as it is currently structured, the EMS is working contrary to this sys-tem. If it continues, warned Mr Clampi, it would "create ten-sion between member states."

Italian monetary officials are irritated by frequent Bundes-bank claims that Italy would be one of the countries looking for a European monetary policy aligned on average inflation. Having already clearly indicated their support for an independent European central bank committed to pice stability they are looking for vertical ity, they are looking for partici-pation in policy-making rather than a higher inflation rate in

West Germany. The Italian central bank believes that the conditions which have established the DM as an anchor currency in the EMS - wide inflation differen-tials among member countries and capital controls in many -are being eroded and that in any case the dominance of an anchor currency conflicts with the principle of joint participa-tion in the making of monetary policy which ought to underpin

a monetary union. Above all, Mr Ciampi and his colleagues argue that begin-ning work on an EMU treaty is

John Wyles

THIS WEEK

THIS WEEK is dominated by US statistics. Of greatest importance will be Friday's Purchasing Managers' Survey for November, which is increasingly regarded as one of the most informative indicators of US componic activity. tors of US economic activity. As the first US data from November it will offer the most

up-to-date view of trends in manufacturing industry.

The survey is expected to provide further proof of how quickly the US economy is losing momentum. Analysts pre-dict that the wide range of information in the survey on production, commodity price production, commodity price inflation, orders, and employment should reveal how much manufacturing industry has shrunk under the weight of an unfavourable exchange rate.

Preliminary figures for the US gross national product in the third quarter are out on Wednesday. They should com-Wednesday. They should com-plete the picture of a sluggish

appears prepared to ease off the monetary brakes to stimu-late economic activity. A cut in

the key discount rates is possi-ble, and economists are pre-

dicting that the Fed funds rate,

currently about 8% per cent,

will be at 8 per cent by the

A quiet week for UK eco-nomic news kicks off today with the appearance Mr Nor-man Lamont, Chief Secretary

to the Treasury, before the Treasury and Civil Service

Committee. He is expected to

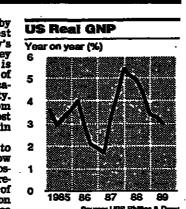
be given a tough grilling on

year end.

plete the picture of a singgish US economy. The consensus of analysts' forecasts, compiled by MMS international, the financial consultants, is for GNP growth of 2.6 per cent between July and September, compared with 2.9 per cent in the second emerger. the second quarter.

If these sets of statistics confirm the slowdown in the US sconomy, the Federal Reserve may decide it has room to loosen the bindings of mone-tary policy. The Fed is con-cerned that the economy may be decelerating too fast, and

a necessary concomitant of stage one of Delors. This will confer a wider role in co-ordinating monetary policies on the Committee of Governors which is also to be equipped with its own expert secretariat. But Rome believes that the Committee will need a framework of longer-term EMU objectives in which to operate. "We can be flexible about when we will arrive there and about how we will arrive there, but we need to know where we are going," says a very senior official at the Italian central bank.



se in efficiency enables pro-

omy as outlined in the recent Autumn Statement. On Wednesday the final money supply data for October are

Other events and statistics due out this week (MMS International consensus forecast in brackets) include:

Today: UK, Confederation of British Industry monthly trends enquiry. Paris, Organi-sation for Economic Co-opera-tion and Development Trade Committee meeting.

Tomorrow: Japan, industrial production for October. Wednesday: UK, London sterling certificates of deposit Bill turnover statistics, monetary statistics, sterling commercial paper, new vehicle registrations, overseas travel and tourism for October. West Ger-many, cost of living index for November, gross national prod-uct for third quarter. Thursday: UK, energy trends

for September. US, personal income (up 0.6 per cent) and personal consumption (unchanged) for October. Japan, foreign reserve for November. West Germany, Bundesbank central council

meeting in Frankfurt. Friday: UK, company liquid-ity survey. US, leading indica-tors (-0.2 per cent) and con-struction spending for October. Japan, consumer price index for November, current account the Government's spending and unemployment for Octo-plans and forecast for the econ-ber.



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15,122

1.625

1.625 1.875

8.872

6.012 0.250 6.625

Borrowers

ECUs

WHEN SYNDICATE managers look back over 1989, they are likely to remember in snapshots the public events and issues that have dominated the

Among them will no doubt be the World Bank global bond issue, Crédit Suisse First Boston's short squeeze on the Toyota Motor Credit deal and its Eurosterling issue for Italy, J.P. Morgan's Finland exchange deal, Morgan Stanley's New Zealand reoffered deal and Merrill Lynch's recent

GMAC issue. All these have one thing in common – they contributed, either deliberately or unwittingly, to a heated debate on the way Eurobond issues are underwritten and distributed.

That debate was fuelled by the apparent overcapacity and lack of profitability of the wider market. Hard evidence of the lack of profits generated by the leading houses in the market is difficult to come by. Indeed, filings by UK-based banks at Companies House in

US DOLLARS

Sekisui Plastics®● Nippon Tel-& Tel-∳ Toyo Menka Kaisha® Belglum, Kingdom of(a)‡∳ Yuen Foong Yu Paper(b)§∳ Nippon Metal Industry® Union Bank Finland(h)∳

Sparekassen SDS(h) ◆
Top Fin.(Bermuda)ii(k) ◆

CANADIAN DOLLARS

Tokyo Electric Power Co

Senque Nat. de Paris(e)

◆

AUSTRALIAN DOLLARS

State Bk Sth Australia

Toshiba Tungaloy Co.♦♦
Sanyo Special Steel Co•♦
Aichi Tokei Denki Co.•♦

Takashimaya Co.∳ Kyokuto Boeki Kaisha∳ World Bank(i)∳

KFW Int. Finance ◆ Wake Electric Co.(c) ★ ★§

Nikkatsu Com. + + 4

D-MARKS

Lion Corp.

SWISS FRANCS

opacity and tardiness.
So how tough has business actually been? Everyone in the Euromarket agrees there are too many banks chasing too lit-tle business and that it has been hard to make money. Rumours of losses and imminent job-cuts abound. And yet a little questioning reveals that many of the larger Eurobond houses have quietly honed ways of improving their overall profits performance. Enter the private placement.

More than a handful of houses admitted last week that in 1989 they have done rather more private placement than public business. They say they are making good profits in this area, so there is much less reason to believe that they are planning large cuts elsewhere. Why shut down a syndicate department when its public struggles disguise the possession of a first class seat on a gravy train?

The private placement business is secretive, profitable and imaginative. Although it has a very wide borrower base, it

Coupon %

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102

100 100

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100

1993 1999 1999

1993

1994

75

depends for its lenders largely (roughly 80 per cent, say the banks) on Tokyo. It generally involves more structured finance than the public mar-ket, and it uses little of banks' precious capital for underwrit-

The secrecy frustrates

researchers who try to gauge the size of the market. Increasingly, deals are quasi-private in that they carry a formal listing but are actually placed with one or a very few investors. Some deals are announced publicly, either because the parties involved wish to adver-tise their relationship or because the originator wishes to claim the deal for league table purposes. More often, however, an original idea is kept secret so the bank which

thought it up can use it again for further deals. This makes it almost impossible to quantify how much business is done, but banks agree it is a large and fast crowing sector. and fast-growing sector.

The profitability of private acements is renowned. One

banker said the risk-reward

Book runner

CSFB

101.30 Wood Gundy 100.775 ScotlaMcLeod

Hambros Bank

Deutsche Bank

WestLB Nikko Sa

UBS UBS UBS SBC

Nomura Europe Daiwa Europe(Ge

Yamaichi Int. (Eur)

Daiwa Europe Nikko Secs. (Europe) Paribas Capital Mikis

Bankers Trust Int.

Kidder Peabody Int. Kidder Peabody Int. Nomura Int. Daiwa Europe

ratio on an average private placement was higher than that of a typical public Japanese equity warrant issue, although he added that many deals are done without fees, the profits coming from arbi-

trage or swap activity.

Because they are hidden from public scrutiny, placements give lead managers more flexibility in creating a bond-swap package. Public deals are notorious for giving little or nothing away to the market in the form of gener-ously-priced bonds, but reach funding targets for borrowers by playing clever games with swaps. In private, banks can fine-tune a package unhin-dered by such considerations.

This puts special emphasis on the last characteristic of placements, the extent to which houses with structured finance skills enjoy a large share of the business. Given the importance of Japan as the main source of funds, US houses like Bankers Trust, Salomon Brothers, J.P. Morgan,

Morgan Stanley and Merrill

New Japan Chemical(m)★★\$ Misawa Homes Co.(o)★★\$ Daido Sanso KK★★♥ Lion Corp.(p)★★\$

Credit Foncier∳ Sweden, Kingdom of∳

LUXEMBOURG FRANCS

Svenska Handelsbank★★◆ Union Bank of Finland★★◆

Leeds Permanent B.Soc.

Leeds Fernment B.Suc.
Swedbank
Credit Local de France
Baltica Holding AIS
Swedlsh Export Cr.(g)
Swedlsh Nat.Housing Fin
Teolilsuuden Voima Oy

FRENCH FRANCS

NERSA(I)#●

irish punts

EiB(d) ф

ESCUDOS

Eurofima 🌢

Lynch do a remarkable proportion of the invisible business largely off the back of their ability to create financial packages that suit borrowers and investors. Ironically, they are assisted in this by the ten-dency of Japanese banks and securities houses not to compete so avidly where there is

little publicity at stake. Private placements this year have fallen into four main categories. Early in the year, there was a string of 10-year yen loans by Japanese life insurance companies, the typical borrowers being sovereign and top bank credits. More recently, short-maturity yen deals with quasi-public status have been driven by swap

Floating-rate transactions related to banks' capital requirements have been bought mainly by leasing and trading companies and have generally been structured to involve the so-called square trip, a term for the routing of deals typically via the Cayman

Av. Ilfe

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rapid expansion of deals linked to equity indices. These are bought by a wide range of institutions and have been mainly for bank names.

Some bankers, while welcoming the revenues they have earned, think that private placements have thrown the problems of the public market into sharp relief. Bells and whistles no longer sell in pub-lic, and this will mean staff cuts because private deals are less labour intensive than the public alternative.

In future, placements should continue to grow, and Europe is expected to become a more important source of funds, with Japan's capacity for new lending gradually slowing. The eventual closure of the tax and accounting loopholes that encourage many deals will also act as a limit on progress. But it will take an enormous change on the public market before the private business reverts to its occasional past.

Andrew Freeman

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nura Bank (Switz)

Credit Suisse Credit Suisse Credit Suisse

93.81 Riada/Ulster Bank

Daiwa Europe Yamaichi int. (Eur) Daiwa Europe

Nomura Int.

Bankers Trust Int.

INTERNATIONAL LOANS

A glimmer of life in Third World finance

THREE TRANSACTIONS emerged last week to show that international banks have not completely halted lending to developing countries, in spite of the lingering effects of the Third World debt crisis. Each suggests that developing countries willing to use assets imaginatively can secure some commercial bank finance.

This is true of the \$45m preexport financing for Zimbabwe arranged by Bankers Trust, which was oversubscribed, and for two financings arranged by Chase Investment Bank for Zambia Airways and Sonatrach, the Algerian state hydrocarbons concern.

The Sonatrach financing. marking the re-entry of Algeria to the medium-term syndicated loan market after more than a year, offers banks higher rewards if the price of oil goes

up or down.
With a final maturity of even years and a four-year grace period, the loan, under-written by eight banks, pays a margin of 1 percentage point over London interbank offered rates. That goes up by % point for every dollar the price of oil moves below a reference range (to reflect the higher risk faced by banks), and rises by the same margin for every dollar it moves above the range (so banks share in the prosperity). The range moves, but stands from \$16 to \$22 a barrel for West Texas Intermediate crude in the first year. What the

lenders receive is not necessar-ily what Sonatrach pays: options appear to have been used to cover oil price swings.

Zambian Airways is financing the purchase of a McDonnell Douglas MD-11 for delivery in 1992 at a cost of \$110.6m. The transaction, similar to a previous financing for the Polish airline Lot, has several layers of protection for banks. Air-craft finance usually offers a tangible asset which banks can

look through to in case of

The airline is putting in 10 per cent equity, leaving \$99.6m to be financed by banks. The manufacturer has agreed to cover a "first-loss deficiency" of 22.5 per cent, protecting the banks against a fall in secondhand MD-11 prices by a further \$24.9m. A rental payment of \$3.4m is also due on the day of delivery, leaving total exposure

on delivery at \$71.3m. Underlying it all is political risk insurance, under which Lloyd's of London will cover for the possibility that the sircraft is not recoverable. The borrower is a US-based owner trust, and some banks will consider the ultimate country of risk to be the UK.

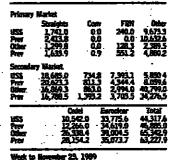
Final maturity will be 12 years from delivery, and average life will be 7.95 years. The interest rate margin is 1.5 percentage points and the commitment fee % per cent.

The loans market generally was inundated by a rush of corporate deals ahead of the year end. Some optimism emerged over European leveraged finance: Warburg's assid-uous efforts to speed up the slow-moving deal for Isosceles appeared to be meeting some success at last. At least two other deals were rumoured including a possible revitalisa-tion of the buy-out of Sicli, the French security and fire-protection commany.

Firmish mandates began to emerge, ahead of new tax on foreign borrowings by Finnish companies, with some banks predicting resistance to the aggressive terms. Five banks have underwritten a \$200m, seven-year term loan for Kymmene, the second-largest indus-trial company in Finland. The margin is 15 basis points. Another, A. Ahlstrom, is raising \$100m over seven years at a 20 basis point margin through Citicorp. Citicorp is also arranging a \$350m refinan-cing for Enterprise Oil of the UK.

Stephen Fidler

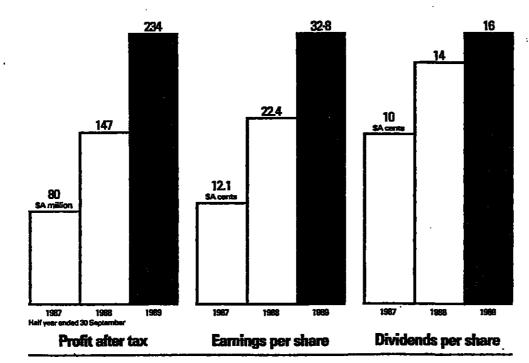
EUROMARKET TURNOYER (\$m)



SK maintains growth

Half year 1989 results

Profits again grew strongly All businesses performed well



CSR Limited, a leading Australian public company with over 100,000 shareholders, is a large international building and construction materials group supplying cement, quarrying and concrete products, asphalt, bricks and roof tiles, plasterboard, insulation products, softwood timber, particleboard and laminates. CSR is also Australia's largest manufacturer of raw and refined sugar, and has very competitive investments in bauxite, alumina and aluminium.

CSR is continuing to develop its extensive building and construction materials businesses in Australia, North America, and Europe.

CSR"

Further details on CSR's results and growth prospects will be in the half-yearly results summary to be released on 22 December, 1989. For a copy please complete and return this coupon to: Manager Investor Relations, CSR Limited, GPO Box 483, Sydney, Australia 2001.

All these securities having been sold, this announcement appears as a matter of record only

New Issue

Septimental with the priced, st-Private placement, With equity warrants, \$Convertible. Efficating rate notes. \$Phusi terms, a) 6-month Libid tiet. Get at per efter 6 years, b) Convention price T\$225.52 - torux T\$28.05 per 5. No convertion until Dec. 1991. Put at 122.55 after 5 years, c) Yield to pet \$4.475.
d) Fungible Dec. 1980 with E22m bond issueched Dec. 1984, a) Fungible with endeling C\$150m deal issued in Jenuary, toque price plus accrued interest. i) Dual-currency issue. Coupon and principal may be paid in either OM or US\$ - strike price DM1.70 per 5. g) Redemption linked to Niddel stock index. ii) Redemption Sniced to gold price. i) \$ over 3-month Phon. Cell from Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor. Cell ston Nov. 1981 at 100, ij 20pp over 6-month Libor.

October 1989

ÖSTERREICHISCHE LÄNDERBANK: **AKTIENGESELLSCHAFT**

Vienna

41/2% Bonds with Options 1989-1999 of Swiss Francs 100,000,000

BFZ Bankfinanz

Nordfinanz Bank Zürich

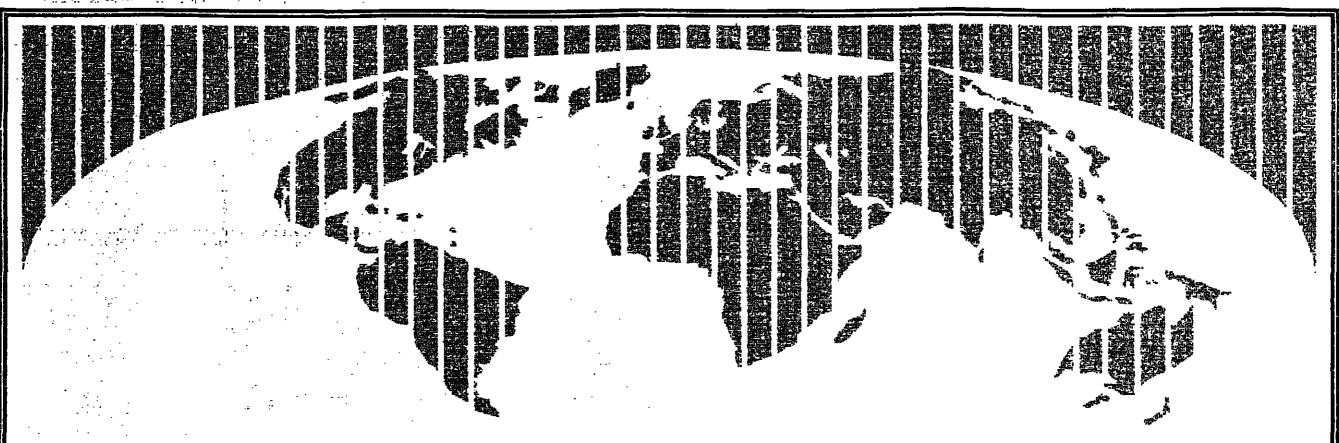
HandelsBank NatWest Banca del Gottardo Wirtschafts- und Privatbank Witschans- und Privanank
Algemene Bank Nederland (Schweiz)
Merrill Lynch Capital Markets AG
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Bank in Liechtenstein Aktiengesellschaft
Banque de l'Union Européenne en Suisse S.A.
Genossenschaftliche Zentralbank AG
Pagent Vandeling de Crédit Banque Vaudoise de Crédit Bank in Menziken Bank vom Linthgebiet-Sarganserland EKO Hypothekar- und Handelsbank Luzerner Landbank AG Standard Chartered Bank (Switzerland) AG Banca del Sempione Banque Pariente Bank Langenthal Royal Trust Bank (Switzerland) Banque de Gestion Privée Banco Exterior (Suiza) SA Südwestdeutsche Landesbank (Schweiz) AG Crédit Foncier Neuchâtelois

Banque Paribas (Suisse) S.A. J. Henry Schroder Bank AG J.P. Morgan Securities (Switzerland) Ltd. Kyowa HB Finanz AG

Kredietbank (Suisse) S.A. Clariden Bank Lloyds Bank plc Amro Bank und Finanz Bank CIAL (Schweiz) - Crédit Industriel d'Alsace et de Lonzine AG Armand von Ernst & Cle. AG Banco di Roma per la Svizzera Caisse d'Epargne du Valais Fuji Bank (Schweiz) AG Gewerbebank Badén Handelsfinanz Midland Bank Hypothekar- und Handelsbank Winterthur Sparkasse Schwyz

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– Société Générale Alsacienne de Banque



This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Securities.

\$4,000,000,000

Tennessee Valley Authority

\$1,500,000,000 84% Power Bonds 1989 Series F Due 1996 \$2,500,000,000 85% Power Bonds 1989 Series G Due 2029

Interest payable May 15 and November 15

MORGAN STANLEY & CO.

November 1989

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GOLDMAN, SACHS & CO.

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SHEARSON LEHMAN HUTTON INC.

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Fiscal policy regains centre stage

developments last week in the context of the most recent his-

tory of US economic policy.
Firstly, the US Federal
Reserve again moved, slightly
ahead of the market's thinking curve, to loosen control on credit. This was in spite of a rather discouraging 0.5 per cent increase in US consumer prices in October, even after

leaving out food and energy. The second, more remarkable strand of the holidayshortened trading week, was that fiscal policy moved back into centre stage. After years of monthly budget deficit fig-ures being ignored and with annual Congressional bargainannual Congressional barganing over how to comply with Gramm-Rudman-fiollings passed off as a joke, Wall Street started talking about

tighter fiscal policy.
As always in the effort to balance fiscal and monetary policy, these two developments are probably not unrelated.

Take the latest apparent easing in monetary policy. The Fed surprised almost everyone with its aggressive injection of reserves on Wednesday through five-day repurchase agreements. This move sent the Fed funds rate almost immediately down to 81/4 per cent, widely believed to be the central bank's new target.

This latest modest easing comes relatively soon after the previous easing from a 8% per cent Fed funds rate at the beginning of this mouth.

sumer prices figures provided evidence that inflation had by no means been beaten. The underlying inflation rate bounced back to around 4.5 per cent - the position which it has stubbornly occupied for

most of the last six years. Clearly, the Fed, while still concerned about inflation, is erring on the side of accommodation, reflecting troubles in a number of sectors of the economy. Salomon Brothers notes that much of the acceleration in consumer prices inflation in

THE CHICAGO Board of Trade

is to tighten circuit breakers

for its Major Market Index

stock index futures contract, in

a further move to curb stock

market volatility, Reuter reports. The CBT has added

THERE WERE two interesting October was due to one-time price rises in particular markets such as cars, clothes and

> By contrast, forward-looking indicators point to sluggish economic expansion with both orders and shipments of durable goods depressed last month, according to last week's figures.

Mr Robert Brusca, chief economist at Nikko Securities in New York, believes the factory sector is weak across the board with orders and shipments down last month in pri-mary metals, non-electrical and electrical machinery.

"Most firms continue to can-nibalize their order books to maintain shipments at a weak pace; this cannot last for long. The Fed is certain to respond to these new signs - and that will keep the economy from recession," writes Mr Brusca in his weekly comment.

What Salomon Brothers calls a "deepening profits recession"

- the product of mounting costs colliding with softening pricing and demand — is heightening business caution and limiting employment and capital spending growth. Non-cyclical developments, includ-ing natural disasters such as the California earthquake and Hurrican Hugo, as well as the continuing woes of the thrift industry, are contributing to the slide in profits.

The timing of the Fed's latest move during Thanksgiving week was not widely expected in spite of reports of pre-Christ-mas retail sales being disappointing as the consumer

One theory was that the Fed wanted to encourage the lead-ing money centre banks finally to lower their prime lending rates. After the last loosening move, only the ubiquitous Southwest Bank of St Louis and two other small banks lowered prime to 10 per cent from

Mr Brian Fabbri, chief economist at Midland Montagu notes that, as the prime rate is cur-

CBT tightens price limits

rently around 240 basis points above competing 90-day commercial paper rates and 220 pasis points above domestic CD rates, it should fall imminently. He also notes that banks and other lenders have been slow to lower mortgage

> Given the woes in some earts of the housing sector, the Fed probably wanted to encourage the other banks to follow suit, so sending an encouraging signal to the con-

What is probably more sig-nificant is that last week bore witness to the "world peace rally." Bonds rose briefly on news of US defence cuts in response to the melting of the Cold War. The Administration decided to request authority for steadily declining inflation-adjusted spending in 1991 to

In the same week, eager to get away for the Thanksgiving holiday, Congress passed, with less bluster than usual, a \$17.8bn deficit reduction pack-

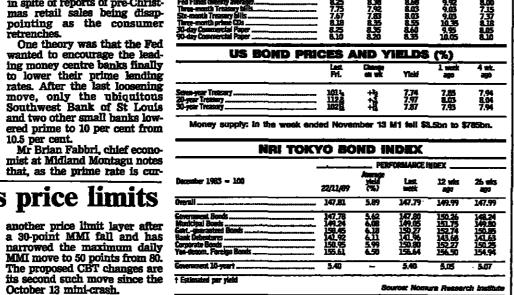
ige. "The measure's effective fiscal restraint is greatly exagger-ated by accelerated tax collections, dubious accounting tactics and optimistic esti-mates of tax-base broadeners," Salomon Brothers noted. "But the continuation through January of across-the-board spending cuts, which will cumulate over subsequent years, pro-vides genuine budget restraint."

Under persistent pressure from the Administration to ease monetary policy all year, the Fed has always said that the fiscal position would have to be tightened before any joy would be forthcoming from the central bank. Nobody ever anticipated any serious move-ment on the delicit from Washington but Mr Mikhail Gorbachev and the people of Poland and East Germany have done Capitol Hill an enormous

favour.
Although the immediate effect in currency markets of the thrilling events in Eastern Europe has been to put the doilar under pressure against the surging D-Mark, cut in military spending and the other devel-opments on the fiscal front hould eventually help the dol-

Treasury bonds did mildly well last week, particularly in response to the Fed's monetary easing. The need to offset recent hints of fiscal rectitude may induce a further move towards accommodation, something for the bond market to look forward to,

Janet Bush



US MONEY MARKET RATES (%)

MANUFACTURERS HANOVER A Driving Force in Italy William Contract NUOVA SAFIM Monte dei Paschi di Siere SFr.100,000,000 4%% Depositary Reduc May 4, 1993 Cassa di Risparmio di Toris Banco di Napoli Yen 7,500,000,000 5 Year Private Placen with Cross Currency \$500,000,000 Euro Certificate F Cassa di Rispermio di Roma Federlessing S.D.A. ECU 30,000,000 Term Loan ĒCN 32'000'000 William There ara Harnovar Lissia eta Biarit, Lissiand 3BdS Banco di Şiçilîa ECU 176,000,000 U.S.\$80,000,000 Revolving Credit Faci November, 1989 MemberofTSA

UK GILTS

Interpreting the words of Major

THIS AFTERNOON, Mr Norman Lamont, the Chief Secretary to the Treasury, appears before the House of Commons Treasury and the Civil Service select committee to answer questions on the Autumn

Statement. Having spent lunch hours preparing responses to likely questions on the details of the Government's public spending plans, inflation and interest rates. Mr Lamont and his officials could well face questions on the predicted fall in the public-sector debt repayment (PSDR).

in his Autumn Statement, Mr John Major revised the 1989-90 PSDR down to £12.6bn - 2.5 per cent of GDP - compared with the 218.8bn predicted in Mr Nigel Lawson's March Budget.
This revision caused a ripple

in the market, though Mr Law-son had earlier warned of a smaller PSDR this time round. Until the Autumn Statement continued repayment of debt on the same large scale was expected. This is the biggest factor in the reduction in the size of the gilts market, which has been contracting by more than £12bn a year since 1988. Taking the smaller PSDR together with the £5bn morethan-expected public spending forecast, the Chancellor had outlined what appeared to be a

healthy recipe to propel the gilts market into the 1990s. At last, market makers could say, the prospect of the Bank issuing gilts again to finance expenditure plans was back on the horizon: perhaps when the PSDR had diminished to a \$7bn

After the statement, the ever-shrinking group of market makers in glits (27 after Big Bang in 1986, now 19) took hope that they might once again outnumber gilts analysts who have taken to calling themselves "sterling bond ana-

With a borrowing requirement rather than a debt repayment resulting in more gilts, long yields could rise to 11 percent or more.

Gilt prices would come down with the influx of stock - as they did in immediate response to the news in the Autumn Statement. Then bonds would become more attractive to the investment institutions needing a safe haven in which to match long-term liabilities and

However, the Autumn State ment may have been too rosily interpreted too soon. Economists at a number of houses are not unanimous in their interpretations of how much the gilts market itself will con-tract. Funding arithmetic and economic forecasting bring a

varied selection of estimates. Midland Montagu is predict-ing a "considerable shrinkage" of £40bn in the market's pres ent size of £122bn to £82bn by March 1991. This is arrived at by assuming a PSDR of £15bn in 1989-90 and 1990-91, which is

UK giits yields Restated at par (%)

Nov 17,1989 lysts" because glits were scarce and trading volumes some-times negligible. Nov 24,1989

> bigger than the Treasury's expectations. In addition, Midland Montagu anticipates for-eign exchange intervention of £7bn in 1989-90 and £3bn in 1990-91. This estimate is sufficiently severe to send the market makers back into gloom -though if the market did

10 years 20

would soar.
Warburg Securities is expecting a "flatter profile," taking into account the Mansion House speech by Mr Lawson which outlined a more flexible

shrink so sharply, gift prices

funding policy.

No longer would foreign exchange intervention be fully sterllised with purchases of glits on a month-by-month or year-by-year basis. Treasury Bill sales would also be excluded from the full funding

Warburg says the key ques tion for the gilts market is

exploit the new funding rules. But assuming the Bank buys in £4bn worth of glits in 1969 90 to sterilise intervention, the gilts market could contract by about £13bn next year, War-

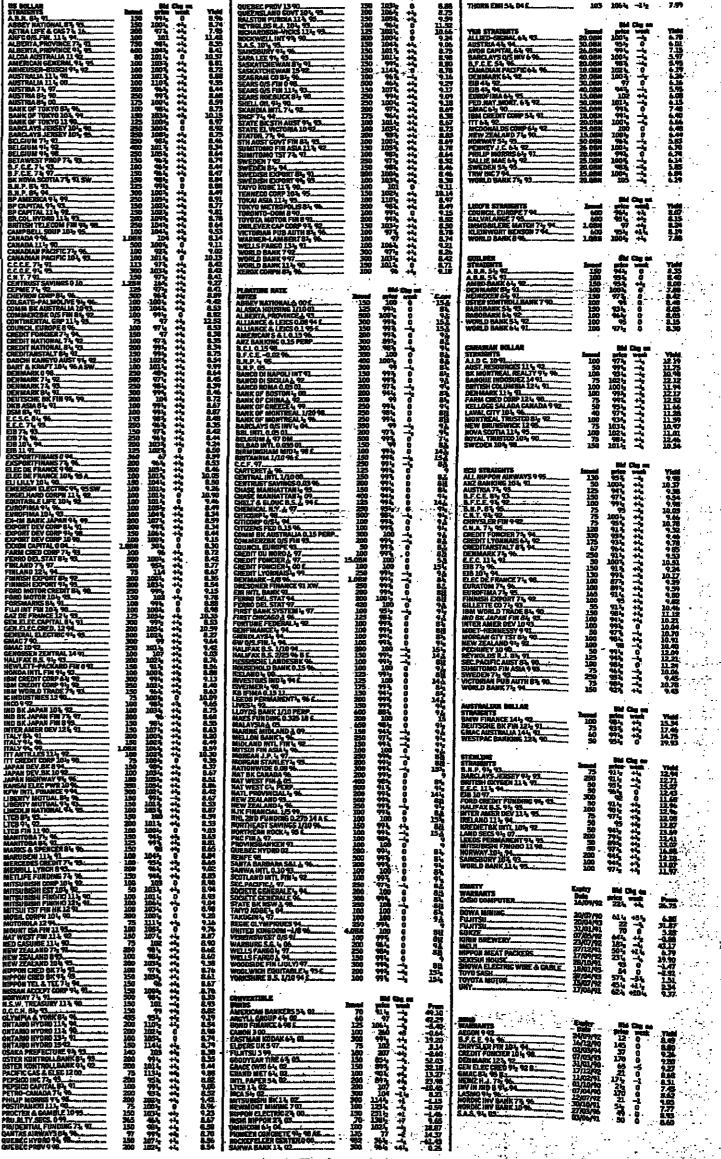
burg estimates. At UBS Phillips and Drew and NatWest Gilts, the economists are also looking for the market to show a contraction of around £14bn by March 1990. On this trend, the market size could be £100bn by the end of March 1991.

All these assessments take the shine off the Autumn Statement for market makers in gilts. The continuing pre-dicted reduction in market size over a two-year period, will, economists agree, considerably reduce the market's liquidity. reduce the market's inquinity.
Even though the Bank is making efforts to improve liquidity with its already announced stock conversion programme, investors are still likely to be character translated to likely to be strongly tempted to invest in sterling corporate bonds instead of gilts. The Bank is accordingly very keen to see the rapid expansion of the sterling bond markets con-

tinue to take up the slack. But while encouraging the growth of parallel markets, the Bank is giving precious little away about the likely size of the gilts market over the next couple of years. If the market shrinks too quickly, the Bank has intimated that it will take

Rachel Johnson

FT/AIBD INTERNATIONAL BOND SERVICE



STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yes bonds, where it is in billions, FLAATING RAYE NOTESE US dollars unless indicated. Margin above the month offered rate for US dollars. Copy = current coupon. CONYENTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying states via the bond over the most recent share pr WARRANTS: Equity warrant price. Choice prices on 24% WARRANTS: Equity warrant price.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Rate increases hit Japanese banks

By Stefan Wagstyl In Tokyo

JAPANESE BANKS' profits have been squeezed by rising interest rates, forcing some of them to announce their first reductions in interim net profits since 1981, the year they started reporting interim fig-

The increases in interest rates pushed up the cost of portion of funds raised at mar-ket rates, as opposed to artifi-cially-low regulated rates, is rising rapidly due to liberalisa-

The banks have been hit hard by the fact that short-term rates, at which they often raise funds, have risen further than long-term rates, the rates at which much of their money is lent out.

The total net profits of the 12

leading city (commercial) banks plus the Bank of Tokyo, which reported unconsolidated results on Friday, rose just 2.8
per cent in the six months to
the end of September.

The biggest five reported

declines in net income. For the full year the 13 banks expect reductions in net income following further increases in interest rates and likely write-offs on loans to Mexico.

The banks were unable to

cover up their difficulties to the same extent as in the past by selling large amounts of securities because the Ministry of Finance has urged self-restraint and ordered accounts to be presented in a more trans-

parent way.
For the first time, the banks have had to reveal a new category of profit - called net operating profit – which excludes profits from capital gains on most kinds of securi-ties. As the table shows, net operating profits are considera-bly lower than pre-tax profits,

JAPAN'S 13 TOP COMMERCIAL BANKS Results for first-half of 1989/90 (Ybn.)									
·	Pre-tax profit	% chg.	Net op. profit	% chg.	inti. income	% chg.	Net profit	. % chg.	
DKB SumBorno Fuß Missubishi Semra Tokal Missui Talyo Kobe Dalwa Sank Kyowa Saltuma	144.6 190.7 147.1 170.8 170.5 77.0 69.4 58.6 47.8 43.8 34.5	+3.8 -2.2 -12.7 +3.3 +8.0 +13.0 -0.3 +12.7 +8.6 -2.7 +1.8	95.9 145.0 103.9 85.7	+12.0 +28.2 +7.3 -23.6 +50.6 -34.8 -62.4 +14.7 +9.8 +2.6 +9.5	38.4 67.2 40.3 33.5 52.8 25.0 20.6 15.8 7.9 11.3 10.3	+28 +11.3 +25.6 -14.2 +55.5 +29.3 +36.3 +26.8 -27.2 +6.8 +40.5	83.8 80.4 80.2	-0.1 -2.7 -0.1 -2.9 -0.1 + 15.9 -1.2 + 18.2 + 32.1 + 5.6 + 19.8	
Hokkaldo B of Tokyo	24.4 49.4	+25.7 -3.5	19.7 42.4	+9.7 -8.5	6.7 76.9	-18.1 +11.1	11.3 32.7	+31.7 +3.9	
TOTAL.	1229,9	+1.5	830.9	+2.9	406.8	+14.2	625.7	+2.8	

which, in the traditional way, include gains on securities

The most startling revelation is the particularly heavy reliance on securities profits of Tokyo banks — including Dai Ichi Kangyo Bank, Mitsubishi Bank and Mitsubishi Bank and Mitsul Bank - in comparison with their fastgrowing rivals from Osaka – Sumitomo and Sanwa. Mitsubishi's net operating profit is only half the pre-tax figure. Sumitomo is by far the most profitable bank at both the net operating and the pre-tax level,

Sanwa shot up the profits' table from fourth position to second, overtaking Fuji Bank and Mitsubishi. and Missubish.

The Bank of Tokyo, which once dominated foreign exchange business, has kept its traditional lead in revenues from international operations. Sumitomo was second and Mitsubishi third. Sanwa, with a 55

ahead of DKB and Fuji into

ahead of DKB and Fuji into fourth position.

A prolonged decline in the Japanese bond market this year hit the banks'-bond dealing profits, normally a useful source of supplementary revenues. Combined bond dealing profits dropped 39.4 per cent to Y14.9bn (\$104m). Fuji reported its first-ever loss from bond dealing — Y4.5bn. The Bank of Tokyo made a profit on bond dealing after a loss for the dealing after a loss for the

IBJ tumbles midway as rivals advance

PROFITS OF Industrial Bank of Japan (IBJ), the largest of Japan's three wholesale banks, tumbled in the six months to September 30 because of the higher costs of raising

The two other wholesale banks, Long Term Credit Bank of Japan and Nippon Credit Bank, hoth enjoyed very rapid profit growth because of highly-profitable dealings in foreign exchange and government bond markets.

JAPANES	E AHOLE	SALE BA	NKS - First-h	of 19	39/90 (Ybn)	•
Bank	Revenue	% chg	Business profit*	% chg	Net Income	% chg
IBJ	1,265.1	+22.8	65.6	-28.7	.51.1	-0.4
LTCB	891,5	+20.9	41.7	+ 238.2	36.4	+9.6
Nippon Credit Bank	546.4	+ 19.1	23.8	+621.9	22.3	+13.9

IBCA promotes five to top AAA rating

By Stephen Fidler, Euromarkets Correspondent

IBCA, the London-based rating agency specialising in bank credit analysis, has promoted five Japanese banks to its top-rated AAA category. This brings to 13 the

number of international banks given IBCA's highest rating, a list from which Japan-ese banks were previously

The banks added are Fuji

Bank Industrial Bank of Japan, Mitsubishi Bank, Sanwa Bank and Sumitomo Bank.

IBCA cited the continuing strength of the Japanese economy and of the Japanese stock market, which have enabled Japanese banks to raise their capital ratios and to use some of their hidden reserves to

"Credit-quality measures by

and large are very strong, and the Japanese banks well placed to pursue their policy of overseas expansion," IBCA

It said an important consideration in the ratings was the weight placed on the inherent strength of the Japanese sys-tem and the strong commitment of the Japanese authorities to the banks.

Standard and Poor's, the US rating agency, allots its AAA rating to only one bank, the Industrial Bank of

Moody's has five top-rated Japanese banks, similar to IBCA, except that it assigns Dai-Ichi Kangyo, the largest bank in the world in terms of assets, a top rating and not

Swedish group buys **St-Gobain** filters arm

By George Graham in Paris

CAMFIL, a privately-owned Swedish filtration company, is to buy Sofiltra-Poelman, the industrial filters subsidiary of St-Gobain, the leading French

glass and pipes group.

The acquisition will, according to Camfil, create the leading European industrial air filtration group, with combined sales of around FFr750m (\$122m) and a solid presence throughout Europe.

Mr Jan Erik Larsen, Camfil's president, said the two companies were highly complemen-tary, with Sofiltra mostly pres-ent in France supplying clean rooms to users in the fields of nuclear energy, hospitals and electronics. Camfil is more active in general filtration active in general filtration. with production sites in Swe-den, West Germany, Switzer-land and Ireland.

Mr Larsen said the air filtration market was expanding steadily, with strong demand from the electronics industry for clean rooms, but was no booming because of the increased enthusiasm for environmental protection, as some

Sofiltra, which made net profits of FFr12.2m last year; is 72 per cent owned by St-Gobain, with the remaining 28 per cent held by Soudure Autogène Française, a subsidiary of the Air Liquide industrial gases

Mr Larsen, whose group was advised by the Enskilda invest-ment bank for the transaction, refused to disclose how much Camfil had paid, but said it represented a "fair market price."

Mel Brooks to take film company public

BROOKSFILMS, a US film company headed by Mel Brooks, said it planned to go public through an initial offering of 15m units at a price of between \$9 and \$11 apiece, Reuter reports.

Each unit, according to an SEC filing, will consist of one share of common stock and one warrant to purchase onethird of a share of common stock.

Enimont in limelight as Gardini guards his hand

By John Wyles in Rome

ENIMONT, the Italian public private chemicals joint venture, looks set for a starring role on the Milan stock exchange this week because of serious doubts about whether Mr Raul Gardini's Montedison group ultimately intends to hang on to its 40 per cent

Enimont shares rose 3.35 per cent to L1,470 last Friday after heavy trading and strong

demand from London. Investor interest was undoubtedly sparked by Thurs-day's statement from the Monedison board that "contractual relations between the two majority shareholders in Enimont must be the object of substantial coherent modification to protect the interests of Montedison and of its share-holders."

As usual, Mr Gardini, whose Ferruzzi group controls Mon-tedison, is whispering his intentions to no-one. Media and market speculation ranges from the possible sale of Mon-tedison's 40 per cent stake in Enimont to BASF, the West ernment's tax proposal for Germany chemical company, much of the year. The Montedito a Gardini stratagem aimed at gaining full control of Eni-

The company was jointly launched at the beginning of the year with Eni, the state oil group, which put its Enichem subsidiary together with Montedison's base chemicals inter-

The capital gains resulting from transferring these Montedison assets to Enimont are at the bottom of the latest turbulence to hit the joint venture. For more than a year, successive Italian governments have promised legislation which would reduce Monted son's tax exposure on its capital gains from L1.100bn (\$827m) over five years to L270bn over

the same period. Not a man famed for his depths of patience, Mr Gardini's wrath finally exploded last week when the lower chamber of the Italian parliament suc-cumbed to the blocking tactics

son board warned on Thursday that parliament's failure to adopt the legislation by the end of the year "would remove one of the bases upon which Enimont was founded."

The company pointed out that at the end of its operating year it had to know about its tax treatment to prepare a set

of accounts. Signs of menace from Mr Gardini's direction have brought the instant reassurances from government ministers that every effort will be made to pass the necessary legislation in time.

This means that resistance will have to be quelled among politicians in the governing majority about using tax favours to encourage industrial restructuring during a race against time to push the legislation through both houses of parliament. These are not circumstances in which the Italian pullament always times of ian parliament always gives of its best.

Australian bond buy-back plan

By Chris Sherwell in Sydney

THE Australian Government has unveiled details of its first reverse bond tender to retire federal government domestic debt, confirming its continuing withdrawal as a borrower and forcing a significant adjustment on the country's capital

markets. markets.

The reverse tender plan was first announced in the August budget, when Mr Paul Keating, the Federal Treasurer, foreshadowed a government sur-plus of A\$9.1bn (US\$7.1bn) for the financial year to June 1990. The tender, a mirror image of a conventional tender, will start on December 5 with an offer to repurchase about A\$150m in

An announcement said the Government would be seeking Treasury bonds of 13.0 per cent May 1991 maturity, 12.0 per cent December 1991, 12.5 per cent May 1992, 13.0 per cent June 1993 and 13.0 per cent February 1995. But it would reject offers it does not con-sider sufficiently attractive, even if this means the volume of repurchases is less than

Although the repurchase is small, its significance is that it removes from the market gov-ernment securities which the

country's banks are obliged to hold to meet their liquidity ratios. With bank deposits generally rising, "it has all the makings of a squeeze," one investment banker said of the The debt repurchases also

raise important questions of monetary policy management for the Reserve Bank of Aus-tralia, the country's central bank Mr Keating was reported to have said in London that the Australian Treasury bond mar-Austranan Treastry bond market would end in three years, and to have indicated that a corporate bond market might replace it.

If this happens, the Australian Government would be been been ground into the contract of the c

breaking new ground interna-tionally in the techniques of monetary management. But as

far as investment bankers are concerned, they are expecting strong growth in Australia's corporate bond market over

the next few years anyway. This is not only because of the emerging shortage of federal government stock, reinforced by a similar trend for semi-government stock. It is also the projected result of a rapid growth in pension funds following recent government superannuation reforms.

Investment bankers say the only home for large volumes of investible funds will be corporate bonds and asset-backed

Currently Australia's corporate bond market has more than A\$5bn of securities on issue - a fast expansion since it began in 1987. But according to Dominguez Barry Samuel Montagu, a key player in the local market, institutional holdings of corporate bonds will increase dramatically to an estimated A\$17.5bn by

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FINANCIAL TIMES

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iber 27, 1989, Landon ent. N.A., (CSS) Dent.).

MANUFACTURERS HANOYER TRUST COMPANY £75,000,800

of the Notes, notice is hereby given that the Rate of Interest for the Interest Period 24th Novem-ber-1989 to 26th February 1990 has been fixed at 151s per cent per annum. The Coupon Amounts

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S.A. LUXEMBOURGEOISE

UK COMPANY NEWS

BAT to take no action after advisers meeting

By Vanessa Houlder and Nikki Tait

BAT INDUSTRIES, the lake or buy off Goldsmith". tobacco-based conglomerate which has been under bid threat from Sir James Goldsmith's Hoylake consoritum, yesterday maintained that it did not intend to take any action as a result of certain matters discussed at a meeting of its financial advisers earlier

The ideas aired at the meeting included the possibility of enlarging BAT, via acquisitions or joint ventures in the tobacco and financial services divisions; looking at a separate listing for BAT's US side; or "seeking to immobilise Hoy-

MR EINION HOLLAND, chairman of Pearl Group, said

yesterday that he had received

commitments from sharehold-ers with over 40 per cent of the

capital to oppose the £1.24bm takeover from Australian Mutual Provident.

These assurances of support

have guaranteed a close finish to the eight week battle which

ends on December 5 when the

Pearl has opened a new front

in its defence by enlisting the support of an all-party delega-

tion of MPs who will meet Mr John Redwood, the consumer

holders' interests because the takeover would allow AMP to

use the Pearl's surplus funds

to invest outside Britain

affairs minister, tomorrow. In particular, the MPs will argue that it is against policy-

By Ray Bashford

Shareholders with 40%

of capital back Pearl

The meeting also covered the potential for "driving a wedge" between members of the Hoylake consortium, or between Hoylake and Axa-Midi Assurances. Axa is the French-based insurance company which has been lined up as a buyer of Farmers Group, BAT's US

insurance subsidiary, if a renewed Hoylake offer for BAT is successful. The previous offer has lapsed while Hoylake pursues certain essential regu-latory consents in the US. Ideas discussed at the advisers' meeting on November 14 came to light at the weekend,

this stage are slim, as the gov-

which have declined to give

Mr Holland said the 690p share

offer is at "a significant dis-count" to the combined valua-

tion estimate of 765p a share,

representing the value of each share based on present and

upper hand.

Panel, although he added that he would not want to pre-judge the watchdog's response. Tootal chief says no to a

Mr Geoffrey Maddrell, chief executive of Tootal, yesterday ruled out accepting a substan-tially lower price from Coats Viyella, its fellow UK textile group, when it renews its bid. His statement followed a The chances of Department of Trade and Industry interven-tion to block the takeover at ernment body has already given approval for the Austra-lians to pursue the takeover. The key to the outcome is in the hands of institutions with about 12 per cent of the capital, commitments of support to either side. However, the AMP, which controls about 40 per cent of the capital, has the As another part of the defence, Pearl has said the bidundervalues the company.

served to confirm the synergy between the groups, he said.

lower Coats bid

following the leak of minutes taken at the meeting to Mr

Jacob Rothschild, one of the

Hoylake consortium's mem-bers. The documents were sent

in a plain envelope to Mr Rothschild's London office.

smith, currently in Paris, hit out at the implications of the

document, saying, "Every one of these proposals served to entrench management and not enrich the business." The documents, Sir James said, would

have to be put to the Takeover

Yesterday, Sir James Gold-

His statement rollowed a report that Coats, which already owns 30 per cent of Tootal, will pitch its bid at around 100p a share. This compares with the 138p per share offer last May which lapsed while it was investigated by the Managorites and lapsed while it was investi-gated by the Monopolies and Mergers Commission. Having obtained clearance to go ahead with the bid, Coats is now thought to be citing signifi-cant deterioration in the UK textile industry as a reason to

reduce the offer.

Mr Maddrell said he saw no reason why the offer should be reduced. The period since the original offer had merely

future earnings as calculated by an independent actuary. through expansion into conti-nental Europe.

Robert Maxwell may bid for Monotype

Mr Robert Maxwell, publisher of Mirror Group Newspapers, is considering making an offer for Monotype Corporation, the typesetting equipment manu-facturer which has agreed a \$32m bld from King, Black & Associates, a US investment

"may well be able" to bid for Monotype. "We are building an interest in the pre-press area....Monotype might fit in." King Black's offer was "sig-nificantly too low", he said. "As a shareholder we will not

sell at this price".

Mr Maxwell bought shares

Monotype's share price climbed from 110p to 155p.

King Black, which provides technical support and capital to high technology companies has acceptances representing just three per cent of Monojust three per cent of Mono type's shares. Its proposed deal

with Monotype would be its

first venture into the UK.

¥6,000,000,000

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ranti's future because he is A PLAN by Mr Sebastian de British Airways, to lead the

Ferranti to mount a resche package for Ferranti Interna-tional Signal, the troubled defence electronics company founded by his grandfather, seems to have run into the ground because of lack of support from industrialists and

By Hago Dixon

The package would have involved bringing in a new board of directors to replace Sir Derek Alun-Jones, the current chairman and chief executive, and his fellow directors. Mr de Ferranti attempted to attract Lord King, chairman of

new management team. The idea was that Lord King would carry sufficient authority in the City so that funds could then be raised to plug the black hole that has appeared in Ferranti's balance

Mr de Ferranti also approached Mr Michael Richardson, head of corporate finance at NM Rothschild, the merchant bank, with the aim rescue package. Mr Richardson will have a

of getting his support for the key role in determining Fer- the UK, which is one of several

shortly due to take over as chairman of Smith New Court, the stockbrokers which acquired a substantial stake in Perranti from Mr Jim Guerin, Ferranti's former deputy chair-

Ferranti rescue plan by former chairman likely to fail

However, Mr Richardson said Mr de Ferranti's plan was a "dead duck — certainly as far as Lord King is concerned and as far as I am concerned." One problem with Mr de Ferranti's plan was that he is a non-executive director of the General Electric Company of

groups that have registered an interest in buying Perranti. In order to get access to information about Ferranti's operations GEC has had to sign a confidentiality agreement and it might therefore ment and it might therefore have been thought that any separate initiative by Mr de Ferranti posed a conflict of

Mr de Ferranti's rescue package might also have been seen as a surreptitious way for GEC to get some influence over Ferranti. It is thought unlikely that GEC would be allowed by

groups that have registered an Ferranti directly because of its dominant position in the UK defence electronics market following the acquisition of Flessey earlier this year.

However, GEC is believed to

be anxious to prevent Ferrantifalling into the hands of Themson CSF, the French defence electronics company, and Brit-ish Aerospace. These have formed a consortium to look at the possibility of acquiring Fer-ranti and are widely regarded as the front-runners to buy it, though it will be a couple of weeks before they decide

A watery issue: shareholders or consumers

Andrew Hill and William Hall analyse the problems facing the new regulator

HERE ARE two grounds for dismissing the new regulator of the privatised water industry: mishehaviour or incapacity.

Mr Ian Byatt - Director General of Water Services to give him his full title -doesn't look like the sort of person who is going to mishe-

As a one-time deputy chief economic adviser at the Trea-sury, and the author of an aca-demic tome entitled The British Electrical Industry 1875-1914, one would hardly expect him to.

Nor is incapacity likely to be a problem for the 57-year-old That will be a comfort to those private and professional

investors currently considering buying shares in the 10 water and sewage businesses of England and Wales, because the new DG is the linchpin of the complex regulatory regime around which the industry revolves.

Analysts and institutions have taken considerable comfort from the wording of the Water Act, which says Mr Byatt's primary duty is to make sure the 10 former authorities and the 29 smaller statutory water companies can carry out and fund their water and sewerage functions. His principal weapon is the cap on water company price increases, which he will both set and review.

It sounds simple - and advocates of investment in water believe the Act ensures

the centre of political and financial debate. Critics of privatisation have warned of the baleful effect a "hostile regulator" (hostile to the investor, that is) could have on the water companies' profits and dividends, if he was to place more emphasis on his secondary duty: to protect the interests of customers in terms of charges, quality of service, and land disposals.

Where on this sliding scale between consumers and investors do the first DG's priorities

"In the long run my objective is to regulate the industry in the interests of the conin the interests of the con-sumer," says Mr Byatt. "The investor is one of the providers of resources for the industry and is entitled to a fair return, but no more than a fair return.

In any case, he argues, the interests of investors and con-sumers are not necessarily in conflict. If customers want the environmental improvements demanded by the European Commission and the Govern-ment they will have to pay for them. The known capital expenditure programme amounts to £24.6bn in the next 10 years, funded by annual increases in water charges of at least 5 percentage points above the rate of inflation. Try as he might, Mr Byatt is going to find it difficult to

solid returns for share avoid the political limelight. The Labour Party, in particular, argues it will be able to change both the DG and his priorities if it gets into power. We be centre of political and the political control of the political control of the political limelight. The Labour Party, in particular, argues it will be able to change both the DG and his priorities if it gets into power. DG's ability to resist political

> "I do not answer to the Secretary of State (for the Envi-ronment). I am independent of the Secretary of State. I am responsible under the [Water] Act," he says.
>
> A Government wanting a

> new regulatory framework, he adds, would need to pass legis-lation: "But it would still be faced with the question of where the capital funds were going to come from to finance the water companies' obligations in terms of drinking water and environmental qual-

Te is clearly concerned - as are many in the British water industry, investors and operators - about the political maelstrom into which the 10 privatised "The industry does need to

be allowed to settle down. I would not like to see too much political uncertainty. I think it is important to concentrate on what it is people are getting out of the industry. What is the quality of water? What is the quality of our rivers and beaches? How much are people paying? What is the standard of service like? How many complaints are there and how are they being dealt with? I would like to see attention con-

centrated on that rather than the highly political issues, such as the precise ownership of the industry."
But the political debate extends beyond the fundamen-

tal pros and cons of privatisa-tion. It includes worries about the so-called "cost pass-through" mechanism, which allows the DG to pass certain unexpected costs straight through to the water consumer in the form of higher charges. Mr Byatt is worried about it too. Were cost pass-through to become a substantial item, the DG believes there would be "insidious pressures" dragging the innovative British regula-tory framework towards a US-

style system. Utilities there have found themselves restricted by annual regulation on the basis of return on capi-Discussion of the task con-fronting the DG keeps coming back to definitions of the limits of his position and

Mr Byatt has already said he wants to be an arms length regulator. With only 100 staff he may have little choice. But he believes examination of selected indicators — service and quality standards, for example, and efficiency of capi-tal expenditure — will enable him to decide, after 10 years, or five years if requested, whether price caps should be loosened or tightened. "If there is a five-year review," he warns, "it is not going to be there to put right a company's

As to what constitutes a reasonable rate of return, Mr Byatt says, "I do not have a figure in my head. I want to keep my eyes open and see what kinds of numbers begin to emerge from the City."

the flexibility of Mr Byatt's Birmingham-based office – "I genuinely want it to be an open system which he says will draw on the advice of merchant banks (on the cost of capital), of industrialists and of 10 customer service committees. So when will the water cua-

succeeding in We need several years to tell how the regulatory regime is working. By the time we get to periodic [five-year] reviews should know better," says

tomer know whether Mr Byatt

we should Mr Byatt. He is neither afraid of the formidable challenges he faces, nor disheartened by a rate of pay - between £50,000 and £80,000 - which barely recog-nises the importance of his

"There are still people who are prepared to work in the public sector for less than they get paid in the private sector. I wanted to do this job. I have specialised in public utilities all my working life. This is a real opportunity for me to put into practice — in specific rather than in general areas—the types of things I have been thinking about and working on."

writes Vanessa oulder. above the 150p offer price on Mr Maxwell said that he Friday although his holding

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Further notice will be published in

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(Established with limited liability in the Kingdom of Denmark) Issue of up to U.S. \$200,000,000 Floating Rate Notes Due 1995

of which U.S. \$181,500,000 has been issued as the initial tranche Notice is hereby given that the interest payable on the Interest Payment Date, December 22, 1989, for the period June 22, 1989, to December 22, 1989, against Coupon No. 9 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$450.47 and in respect of U.S.\$250,000 nominal of the Notes will be U.S.\$11,261.75. Navember 27, 1989, London

By: Citibank, N.A. (CSSI Dept), Agent Bank CITIBANC

Lloyds Eurofinance N.V. £200,000,000 Guaranteed Floating Rate Notes due 1996

Notes due 1976
For the three mouths November 24, 1989 to February 26, 1990
the Notes will carry an interest rate of 15.25% p.a. with a Coupon Amount of £196.37 in respect of £5,000 nominal of the Notes and £981.85 in respect of £25,000 nominal of the Notes payable on February 26, 1990. Ciribank, N.A. (CSSI Dept)

FINANCIAL TIMES



In the mid-80s, one of Britain's smallest Caribbean dependencies was rocked by political

scandals. For the Nineties, the islands have pinned their economic future on offshore finance and tourism. Gordon Cramb analyses the prospects in this survey.

Two-lane road to better times

MORE THAN 30 channels of satellite television reach the Turks and Caicos Islands; there is not one bookshop. Fisheries form its only productive industry, yet local hoteliers find it easier to serve lobster flown frozen from Miami. Wild donkeys meander the main street of Grand Turk, the capital, which is establishing itself as an offshore finance

These are only the most visible of the contradictions which surround the islands, one of Britain's smallest and least developed Caribbean dependencies, as they enter the 1990s. The new decade offers a few avenues towards greater self-reliance. It should also leave behind a period when local politicians were discom-fited by scandal, and overseas investment - from resorts to reinsurance - was set back as

Beneath the surface peculiarities of this tiny territory lie more enduring questions about its future. Although a better economic showing has just ended a reliance on the UK for an annual cash injection to balance its books, capital aid for development costs Britain at least \$5m a year and is this year being bumped up to nearly \$24m. And while economic independence is the goal both of London and of the colony's own elected leaders, politi-cal independence is by com-mon consent at least 10 years

cials will have to maintain their patrol of a local political arena which, in spite of a twoyear suspension of elective government from 1986 and a change in ruling party, is still pitted by allegations of patron-

in its otherwise inhospitable

A population of about 13,000 is concentrated on six main islands, but their number is construction workers in the

Bahamas, will in a pithy TCI saying be "boiling two pots" living abroad temporarily while remitting money to the family they have left behind. Others, particularly the brightest who have turned to a US college for the tertiary educa-tion which is also unavailable locally, are gone for good.

Hopes of advancement for the islands lie in two main directions. One is offshore finance, a business developed in Grand Turk during the 1980s by small firms of largely expa-triate lawyers, bankers and accountants attracted by the the absence of tax and the TCI's use of the US dollar as its currency. The financial sector is now to be put on a more regular footing with a package of legislation intended to be in place by the end of the year.
From the islanders' point of view the industry will never be

a mass-scale employer, while the professionals who are its motive force will need to assess in what areas they can best compete against more established jurisdictions in the Caribbean and elsewhere. At the same time, the newly ensconced regulators have a delicate job in keeping things clean — but not throwing the

baby out with the bathwater.
The other way forward for the TCI is in tourism. Its impact, negligible at the begin-ning of the 1980s, has already. transformed Providenciales the westernmost inhabited island and known as Provo, since club Méditerranée picked it as the site for a holiday vil-

Furks and Caicos

believes such troubles are now

over, and sees a restoration of investor confidence after the

trauma of 1985 when Mr Nor-

but one, was arrested in Miami and convicted on charges involving the receipt of drug-

Mr Skippings is happy with

the level of development activity taking place but is concerned that it is concentrated

on Provo - where he says sat-

uration will be reached "only a

few years down the road" -and that not enough is being

done to pass on to islanders the skills in building and man-

man Saunders, his predece

related funds.

As if in recompense for their unappealing inland vegetation, the islands have been blessed with spectacular coastlines of pale, fine sand. A narrow range of temperatures around the mid-80s and low humidity also

is regularly ranked by diving enthusiasts as one of the world's top five locations - a specialist market which helps even the spread of business outside the peak winter vacation months

While Grand Turk remains a village, Provo has become a full-blown resort, with new hotels opening each year. It has also brought soaring prices for residential land, and Provo for residential land, and Provo is enthusiastically described by the largely American property investors there as "the new Grand Cayman". But an adequate secondary market for housing has yet to emerge, and a standard 30 per cent discount which developers offer to those with TCI resident status suggests that asking prices may be somewhat inflated.

The growth of Provo has not

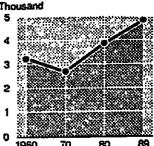
been without its problems. Labour has drifted there from the other islands, but jobs in the tourism business are often seasonal and sporadic, and construction projects have been prone to lengthy delays. An attempt is being made to restart work on a half-built Sheraton, while a Ramada hotel is due to open next year, also behind schedule. to flow into the Treasury during 1989/90 is \$44m. almost double the amount during 1980/81. Of this \$2.2m (\$139,000) is expected from company registrations and 1.7m (\$60,000) from tourist levies. This increased revenue has meant that the islands' economy has achieved a turnround in the last year taking the dependency out of the most literal meaning of that word. Mr Oswald Skippings, Chief Minister, believes that Investor confidence has been restored after the traumas of the mid-1980s. The economic outlook is discussed by Gordon Cramb on Page 2. ON OTHER PAGES Banking and finance and

☐ Total revenue expected

UK relations, Page 3; Tourism and communications links Page 4; Industry and

fisheries, Page 5.

Total adult population



KEY FACTS

430 sq km ☐ Population:

13,000 (est 1989) 7,413 (1980 census) Economically active 2.909 (1980 census)

Oswald Skippings ☐ Currency:

Chief Minister: US dollar

In the interim, British offi-

age and cronylsm.

The Turks and Calcos nestle at the south-eastern end of the Bahamas chain, with which they were federated for most of the last century. Their le than 200 square miles of flat, scrub-like land area is spread among some 40 islands and smaller islets, or cays — hence one part of the territory's exotic name, given by early Spanish explorers. The other comes from the fez-like red flower on the Turk's Head cac-tus, which grows determinedly

said to be matched, if not doubled, by those who have moved away to seek the employment which they are unable to find at home. Some of these, like

lage which opened five years

help.
With coral reefs giving way
to a sheer ocean wall, the TCI

The growth of Provo has not

Mr Oswald Skippings, the islands' Chief Minister. agement which the projects

I am sure the private sector will inevitably play the leading role in terms of bringing about the infrastructural change that we need to undertake," he said. But he added: "It is not our intention to let development take place around us. Our people must be participants, must be involved. If they are not qualified to participate then they have to be trained, and that is also one of the areas where we request the investors

The People's Democratic Movement (PDM) led by Mr Skippings came to power in March last year for the first

time since 1980. Its landslide victory, taking 11 out of the 13 elected seats in the Legislative Council, came in spite of British constitutional attempts to provide a more diverse range of voices in the islands' assembly. In the two-party system which has emerged in the TCI, support for the government of the day has often been rewarded with individual favours, while those loyal to the opposition have been commonly excluded from jobs, pub-lic sector contracts, and alloca-

tions of Crown land. Political strife reached its height under the Progressive National Party (PNP) administration in the months following

Mr Saunders' arrest. It led to a commission of inquiry conducted by Mr Louis Blom-Cooper, the British barrister. His report reads like a tropical thriller, with chapter headings such as "Corruption at the cemetery wall" — and it accords a key role to Mr Skippings, the then Leader of the Opposition, against whom he found "a strong prima-facie case... for incitement to commit acts of violence"

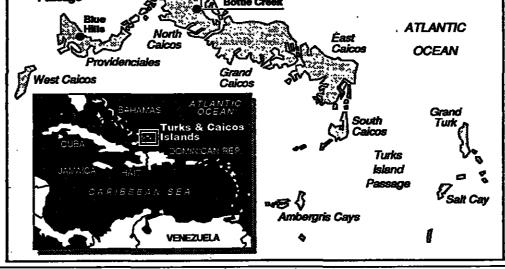
The episode, involving the New Year's Eve arson of a government building in Grand Turk, did not prompt criminal charges, and the commission held that he and the PDM appear to be deprived, of any opportunity to become the and Caicos Islands Govern-

And so it was. Mr Skippings once the West's youngest head of government, is still only 36 and, when asked to reflect on his role in the upheavals, denied violent intent but acknowledged: "We get older, we get wiser."

Although the UK is now exercising tighter financial controls, independent observers of the political process in Grand Turk believe the territory has some way to go before it will be rid of abuses, and the PNP contends that little has changed except the party in

Mr Alden Durham, Leader of the Opposition, admits of his party's own last period in office, "We really messed up,"

Continued on Page 2





A Message from the Honourable Oswald Skippings, Chief Minister of the Turks and Caicos Islands.



In this my second year in office, I am happy to participate in this survey on the Turks

We are a government that understands its responsibilities to develop the economy, to provide a better standard of living for all our citizens, and to create a new upward mobility for our population as skilled financial services and professional workers.

Our long term goal is to develop our financial services industry to the stage where these islands are considerd the foremost corporate domicile in the region. For this to happen, it is imperative that we develop a reputation for integrity and high standards of professional conduct.

This combined with financial freedom, investment privacy, absence of direct taxation and a growing financial services infrastructure of banks, insurance companies and trust institutions has already put us on the path to success. We hope that the international financial community will come to view our growing financial services industry as one which in safe and well protected by proper legislation and appropriate supervisory controls.

REGULATORY AUTHORITY

To achieve these aims we are implementing a partnership of the public and the private sectors through the establishment of a regulatory and promotional authority. This entity will represent the interests and concerns of the government, as well as the members of the local financial community and their offshore clients in areas of regulation, legislation, investor protection and

The Authority will promote the investment and financial opportunities of the Turks & Caicos Islands as an outpost of free enterprise and financial freedom in a world where private wealth and investment freedom is increasingly government

Proper regulation and supervision of a financial industry go hand in hand with promotion when the primary purpose of the increased regulation is to protect investors rather than to raise revenue. In those nations where direct taxation is a fact of economic life, government, the financial industry and the investing public tend to find themselves in an adversarial relationship, because regulation is used primarily to control and tax, and in some

investment freedom and opportunites.

Important legislation has already been passed by our Legislature and awaiting assent, this will certainly enhance our offshore industry.

RAPID AND RELIABLE SERVICE

Our goal to become a "big player" in the international offshore market is quite a challenge. Countries such as Switzerland, Bermuda, Hong Kong and the Channel Islands all have a history and depth of expertise that we seek to develop over the coming decade. In the interim, with no legal requirement for Turks and Caicos companies to have resident directors or for the holding of meetings within the Islands, I see ourselves complementing these traditional jurisdictions by being able to provide an efficient, rapid, reliable and inexpensive service in coporate entities and trusts, the active management of which may be conducted in those centres where the infrastructure is

already in place. In previous years, Panama has been on of our traditional competitors in the area of simple and inexpensive companies to be used for personal asset holdings, investment, trading and the like.

I am sure there are very few practitioners who are not aware of the events in Panama. With the very real possibility of that country becoming progressively less aligned with the Western democracies, we see enormous opportunities, and in fact we have already seen the shift in the significant increase in the rate of new incorporations.

So we turn to our direct competition, which we see as Gibraltar and the Isle of Man in Europe and British Virgin Islands in the Caribbean. In the corporate area, we offer a similar or identical product to those jurisdictions at the same or less cost and we are more efficient in terms of the time it takes to get names approved and incorporation documents processed. I do not think it is an exaggeration to say that a company cannot be incorporated any quicker than in the Turks and

It is also important to note that in constrast to those jurisdictions we are the only pure tax haven in that there are no direct taxes of any sort levied by our government. We offer a service in quick, easy and inexpensive asset holding and trading companies. We also offer confidentiality and investment freedom, not only in the area of companies but also in banking services and trusts. Eurodollar deposits are available through the

extreme cases confiscate wealth. This is in direct banks operating in the Islands. Without the need contrast to the purpose of our supervisory regula- for exchange controls, funds can move in and out tion, which is to protect investors and enhance of the Islands freely without any of the usual formalities of seeking permission and/or disclosing beneficial ownership. I would hasten to point out that the banks adhere to strict internal policies and most professional firms have put their names to a Code of Conduct, all designed to deter as far as possible the unscrupulous, or worse, the criminal operator from using these Islands as a hideaway for ill-gotten gains.

Our insurance industry is also growing, particularly in the area of credit life re-insurance. Endusers find that our fees for incorporation and other services are considerably lower than Cayman, the Channel Islands or Gibraltar.

• TOURISM GROWTH

Regarding our second growth sector, tourism, we are in the early stages of developing our tourist industry. Our climate, our beaches and crystal clear waters and our proximity both to major centres of population and to transportation hubs, all combine to virtually guarantee a successful tourism industry. Tourist arrivals for the first seven months of 1989 are up by some 38.2% over the same period last year.

The completion of the Ramada hotel and casino in early 1990 will complement the existing Club Med resort and Sheraton Hotel which is also in the course of being built. There is also plenty of room and scope for marina-type developments and a need for more intimate lodgings for the vacationer seeking tranquility and quaintness that is evident in Grand Turk and Salt Cay.

Efforts are being made to improve international air services to the islands, which hopefully will offer additional flights to our existing services provided by Pan Am World Airways. Easy access to and from the islands is also vital to the development of our tourist industry.

With the help of HMG, an attempt is being made to further develop the potential of our fishing industry, on which the livelihood of a number of less developed islands continue to rely.

We believe that our Islands have the potential to become the Liechtenstein of the Western Hemisphere by the year 2000. Our advantages, combined with the right levels of regulation which impending legislation will bring to the financial industry, could propel this tiny nation ahead of Cayman as an investment haven for the over taxed and over regulated developed world. Our government will provide the stewardship, stability and integrity necessary to bring this about.

> The Chief Minister's Office Grand Turk Turks and Caicos Islands

SMALL DOES not equal beautiful in the Turks and Cal-cos, although the islands themselves are both. Not only are government revenues inadequate to generate big infras-tructural development from its own resources, but the economy can be swung pivotally by just one direct investment commitment from outside.

By the same token, the territory is exposed to any world downturn in tourism activity, which sustains many islanders. The TCI has been bereft of

commercially-extracted natural resources since the salt industry collapsed in 1964. Since

Total revenue

Recurrent - Tax

Import duty Export duty

Stamp duty

Work permit

Fees.sales

ecurrent - Non-tax

Fines & toriettures

UK budgetary aid

UK development aid

Company registrations

THE ECONOMY

Dependent no longer

then the colony has been left in an ultimate double-bind: on the one hand, there is little land which is both arable and served by freight transport to ship produce out, and there are no economies of scale to facilitate manufacturing for local consumption.

On the other hand, the resulting import dependence

1985/86

4.124

0.054 0.830

0.379 0.426 2.942 0.934 1.912

0.096 2.572

3.921 0.070

1980/81

1.651 0.72

0.139

0.289

0.060

2.914 1.049

1.556 0.309

1986/87

8.483 4.566

1.414

0.228 1.157 0.505 0.439 2.413

0.257

0.092 3.016

0.033 3.254

16.758

10.526 5.874

0.148 1.555 0.252 1.294 0.739 0.665 2.505

0.222 2.162 0.121 2.022

0.137

2.892

17.824 14.702

7.466 5.842 0.486 0.392 0.516

0.069

0.282

-0.011

means high prices - nearly everything, from milk to machinery, comes in through Miami. This, in turn, forces up

wages. The protection against adverse foreign exchange movements the islands gain by using the US dollar as their currency, is offset by the

13.242 7.222

0.140 1.800

0.280 1.800 1.300 0.700 4.403

0.320 3.983 0.100 0.237

23.691 17.315

8.849 6.914 0.362 0.587 0.602

0.111 6.266

0.457

9.000

0.140 2.200

0.330 1.820 1.718 0.820 4.266 0.402

0.143

20.032

10.652 7.644

0.374 0.699

provide a further distorting influence, accounting for per-haps 10 per cent of the total immediate cost disadvantage non-tourist population. Government revenue and expenditure (USSm) But, it is acknowledged unofficially, they help the hotels business and basic services to 1987/88 1988/89 1989/90 function by their willingness to 44.360 16.028

accept labouring and cleansing jobs which "belongers" often That is not to say all islanders are comfortably off. There are no official figures for average wages, but estimates range from \$100 a week upwards. Although poverty is not greatly in evidence, unemployment is conservatively estimated at 12 per cent, a picture which is certainly worse on some islands and which is

which faces potential new industrial projects when com-pared with nearby low-pay

economies such as the Domini-

can Republic and Haiti.
Illegal migrants, who slip in notably from those two coun-

tries only 90 miles to the south,

exacerbated by the virtual absence of welfare benefits. Nevertheless, the TCI econ-omy has achieved a turnround in the last year which is hailed alike by local politicians and London-appointed civil servants. It has brought the dependency out of the most literal meaning of that word – for several years at a stretch British funds were required as direct budgetary aid, merely to redress an annual and recurring excess of expenditure over

Budgetary aid, which reached a peak of \$3m in 1986-87 while the elected government was suspended, eliminated by this April.

Other forms of financial support continue, through small amounts from the European community, Canada and the Caribbean Development Bank (CDB), as well as British capital aid where development grants are being nearly quadrupled in the current year to an exceptional \$23.8m from \$6.1m. Such support is common, though, to most of the UK's overseas territories, whereas the former yearly injection to balance the TCI government's books was both

usual and clearly a discom-

fort to Whitehall. According to CDB estimates, growth in TCI gross domestic product, which hit a peak 29 per cent in 1985 just before the impact of that year's political turnoil, slipped back to single figures before rallying strongly last year for a rise on 1987 of 24.5 per cent. Total GDP for 1988 stood at \$63.1m.

The revival was assisted in delayed form by the establish-ment in 1984 of the Club Méditerranée resort on the until then neglected Providenciales the westernmost inhabited island of the TCI chain and now the focus of numerous up-market tourist hotels as well as condominiums and villas.

Islanders and expatriates alike accord credit not so much to the French company itself, which has a penchant for plo-neering undiscovered locations and was plied with elaborate

Rather, it required what is now seen as a leap of faith among British officials who committed funds on a previously unheard-of scale to accommodate what would be previously unseen numbers of

visitor arrivals.
The funding, used for infrastructural needs such as upgrading the airstrip and roads, led at one stage to strident questioning by British parliamentarians in the House Commons Public Accounts Committee.

The decision was vindicated. Club Med was followed by a stream of other developments. The direct inflow into govern ment coffers from tourist levies, from a barely significant \$60,000 at the beginning of the decade, by two years ago was running at 10 times that

level and is forecast to reach \$1.7m this year. By this measure the income

from company registrations is in fact larger, at a projected \$2.2m for 1988-90. But the contribution the labour-intensive tourist business makes to the wider economy is far more thoroughgoing.

Stricter controls on public sector purse strings have also helped. The 1986 commission of inquiry into alleged corruption and other malpractices under the then Progressive National Party government found that "the Public Works Department wages bill has in the past been grossly inflated" - by taking on more people than were needed, in a type of unofficial social welfare mixed with political patronage.

When elected government was restored in March 1988, not all their previous powers reverted to ministers. Crucially, the Governor and his officials now have direct responsibility for public ser-

but claims that certain public

officials "have recommitted themselves to these things on a

much grander scale".

The Chief Minister has capitalised on the PNP's drug asso-

ciations to take a hard line on the narcotics trade - calling

for the death penalty to be

imposed for traffickers. The British Government would be

unlikely to countenance the

granting of such a power, although the TCI does nomi-

nally retain hanging for cer-

the drugs business has a long history, but its present extent

is more difficult to measure

Washington officials decline to single out the TCI as any more

than one of several Caribbean locations which have been used as trans-shipment points.

up, but use of the potent form of cocaine known as crack has

recently become evident in

Provo, indicating that supplies are still finding their way

Surveillance has been s

The islands' association with

tain forms of murder.

Continued from Page 1

vice appointments.

The increase in development activity on the islands has meant that the government wage bill is set to top \$10m for the first time this year, having roughly trebled over the decade. But proportionately less of locally generated reve-mes (ignoring the UK contribution) is immediately going out again to its own employ-ees. At the start of the 1980s public sector-pay was absorbing more than three quarters of what the islands were earning by that measure, and in 1986-87 was still taking two thirds. Last year it was down to harely half, and the fore-casts for 1989-90 indicate that wages and salaries will require an only slightly higher 52.5 per

cent of recurrent revenue. A further contributor to the financial turniound has been privatisation. The scale, as always in the TCI, has been limited, andbut one significant move came in 1986 when the authorities moved to shed their

Regging out drug-generated

cash is another concern, but

one which those involved in the TCI financial sector say they have amply addressed

through limits on deposit-tak-

They argue that they cannot afford any sort of scandal,

involving drugs or otherwise, because new business would

Drugs surveillance

has been stepped up,

but use of the potent

form of cocaine known

as crack has recently

become evident in

Provo

collarse in the same way it did

four years ago. That has receded into history," says Mr

Christopher Coriat, a lawyer

active in the colony's growing

work in offshore company for

Not everyone is convinced that the new legal framework

Road to better times

lossmaking utility interests. In one instance Mr Bob Blanchard, a Florida businessman who already owned the power generators on Grand Turk took over the transmission and sale of electricity on that island for a nominal \$1 payment. But the company has since invested \$1.25m in upgrading equipment, the annual saving to the govern-ment is put at around \$1m, and service is by common consent far better.

Trends in power consumption provide only a rough guide to economic develop as a few of the very largest users have licences to generate their own private supply. Nevertheless, electricity use grew

13.4 per cent last year. Cable and Wireless of the UK, which runs the territory's telephone system, showed a similar 16.3 per cent increase in metered usage with the number of subscribers growing at an even faster rate of 25 per

will provide a sufficient safe-

guard against abuses. One

leading sceptic is Mr Liam

Maguire, a California-based entrepreneur and former TCI

government minister. He

describes some finance deal-ings in the islands as having

had "a stench that reached Los Angeles" and adds: "Anybody who is talking about the finan-

cial future of this place should not talk about the introduction

of capital, but about the intro-

In the hothouse that is Grand Turk's business and

political world, such sentiments are not popular. Dissent is discouraged, past lessons

Although the integrity of

most who work there is beyond

doubt, the expatriate commu-nity and the TCI's own leaders

may need to concoct a rare blend of unanimity, vigilance,

and a greater degree of toler-ance if these distant, flat smudges of earth are to gain

international allure as any-

thing more than a seven-day

duction of ethics."

often seem ignored.

package suntrap.

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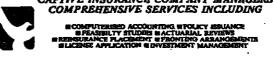
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TURKS and CAICOS 3

business is intended to provide

the second of the twin tracks

to economic growth for the Turks and Caicos, with the authorities and local private

sector professionals hoping

that the passage of new bank-ing, insurance and trust legis-lation will accord the islands'

financial sector the same

cachet that the TCI tourist

industry already enjoys - as

an exotic location, undoubt-edly, but one which is secure.

After some delay, the new

legal package is expected to be complete by the end of the year. To a large extent it will

update and codify existing

practice in a sector which has

grown from nowhere during

the 1980s and, for all its lack of

Existing banking laws had in

any event inhibited the large-scale arrival of fringe or brass-

plate institutions. There are only five groups sanctioned to

related areas, primarily com-

pany formation, trust business,

and certain specialised forms of insurance. Central controls

here have until now been all

but non-existent. One choice which thus arises is whether

the TCI graduates to become a full-line offshore centre or con-

centrates on areas where it has

proven success. A related ques-tion is whether the new laws

and their accompanying regu-lations - still unseen in their

final form - might yet stifle

Mr Derek Sambrook, the

newly-installed supervisor of

the offshore finance unit, has spent the last 10 years as a

practitioner in that industry,

most recently with a private trust company in the Isle of Man. He confesses to being the

Man. He confesses to being the archetypal "poacher turned

A DECADE which began with Britain planning big develop-ment aid projects, intended clearly as a going away present, had its heated climax in 1985-86 with a stern reassertion of parental control, and will end with the Turks and Caicos, if anything, further from independence than 10 years ago -

and quite happy about it too.
The islands gained their own constitution only in 1976 after periods of attachment variously to the Bahamas and Jamaica. From this history the only residual tie is one of legal redress through the Court of

Appeal in Nassau. For TCI "belongers", the bond to the UK is forged by necessity rather than emotion. Policy initiatives which ema-nate from Whitehall are sometimes seen locally as remote or misguided, but on the whole the relationship seems valued not just as a source of aid, but also as a cautious countervailing force against any excesses on the part of their leaders.

This, in turn, is born from the islands' short and, so far, sorry experience of elected government. A two-party system has developed in which the sides have almost indistin-guishable views on policy but sonality level. A change to multi-member constituencies, intended to provide a more even representation in the Legislative Council, instead resulted last year in a landslide victory for Mr Oswald Skippings' People's Democratic Movement, and Britain may **UK RELATIONS**

Bond forged by necessity

need in the future to consider other constitutional means towards greater political accommodation.

In a rare example of unanim-

ity, there exists an unwritten moratorium among rival political leaders not to campaign for independence. The pact, reached during the suspension of elected rule ahead of last year's election, is said by all to be good for about 10 years. In law-making by the TCI government, officially the UK approach is one of "non-disallowance" whereby legislation emerges from the will of Legco, as filtered through the Executive Council where Britain's interests are represented by ex officio appointees. In practice, however, Britain through the Governor retains wide-ranging direct powers relating to the peace and good order of the territory. Among other things, development projects of any size are also referred to Lon-

This last power largely reflects the prevalence of Crown land, which London is willing to see alienated only if it is developed in a way that can be said to benefit the com-

13 Understanding the applicable laws of the Turks & Caicos Islands affecting

Describeration in lending institution both in the Turks & Cajcos and absort

17 Schedules of sales

Arbitration and expert witnesses, preparing reports for echinanous

Realistic feasibilities including foil statisti-cel information on different market seg-is, absorption/capture rates, market

Cach flows, Applications for Finance pus-sented in the form recovered by lending

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Interior furanceal season entered fine

Advice on selection of suitable contractors, preparation of construction contractors, settlement of contractors claims.

Developing
Turks & Caicos
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munity. Residential title is granted on a so-called condipurchase lease, and deeds are transferred only when a dwelling has been built. A similar arrangement applies to commercial projects, although freeholds are by no

means as readily available. In each case there have been abuses, usually involving the procurement of islanders to act as "front" for a foreign purchaser, but such transfers are being more closely monitored than in the past. But there remains, whichever of the two main parties forms the government of the day, a belief among islanders that its supporters will be the more favourably treated. Given the directness of the

UK relationship, TCI links within the region are patchy. Ministers participate in Cariband the territory is a member of several organisations including the Caribbean Development Bank - where it has recently regained a better credit standing after a poor repayment record inhibited the granting of new loans between 1981 and 1988.

In trade, there has been little need for a strong regional bonding as the islands are not export suppliers of goods or produce except seafood. The chief export of the Turks and Calcos has, in fact, been labour, particularly to the Bahamas where young people have gone in their thousands

ing labourers from Haiti on short-term contracts, plus a swathe of illegal migrants from there and the neighbouring Dominican Republic.

The TCI government is unhappy about this two-way flow, with the loss of its young adults on the one hand, and on the other the social tensions it believes the influx is causing. But in the absence of more consistent employment prospects for its own populace, ters appear to have little

Further affield, the main day-to-day ties with the UK on a governmental plane are par-alleled by the pervasive influ-ence on the islands of the US. This occurs:

dominant trading partner and through the islands' use of the US dollar, as well as in the significant receipts derived from US tourism, property pur-chases mainly on Providen-ciales, and offshore financial transactions.

 Culturally, through the American television networks which are received via satellite into most homes.

• In law enforcement, because

of Washington's wish to over-see policing of its perceived "back yard". In the 1950s to 1970s the US used Grand Turk as an armed forces base, but satellite track-ing and other technological developments eventually led to the withdrawal of this presence. The main sphere of operations now is in the offen-sive against drugs.

Anglo US agreements have spawned a spotter plane and patrol boat to detect supplies being dropped in the area from light aircraft.

As a deterrent to drug-re-lated funds, TCI financial institutions have agreed a code of practice which limits cash deposits to \$5,000, half the level which is permitted in the US before federal alarm bells ring.



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BANKING AND FINANCE

Thriving haven for companies

gamekeeper" before anyone else can pin the label on him, but goes on to issue a more pointed warning about the background he brings to his job. "While any private sector delights in saying, 'Fine, we have a supervisor we can relate to', they must also realise they have someone who knows all the tricks - or at least a considerable number of

regulation, has remained strik-ingly free of public scandal. A handful of small banks has He is charged with the dual, some would say invidious, role collapsed over the past several of regulating the offshore cen-tre internally and at the same time promoting it abroad. He and others in the administrayears, causing some local dis-tress, but their international involvements were minimal. The sector's main, and paintion speak earnestly of the need neither to over- nor to fully felt, sethack was external the implication of senior ministers in drugs and mal-practice during the middle part of the decade resulted in unsurprising, but none the less under-regulate an industry which will have a hard enough time convincing potential investors that the TCI offers a unwelcome, publicity from which the business is only now safe but responsive haven into which to spread risk, without recovering.
Financial practitioners in becoming the next natural home for other people's rejects. Financial practitioners argue the capital Grand Turk, while insisting that there was no marked outflow of client funds that the small size of the community itself limits wrong-doing. "It is relatively easy for someone to get a bad reputaat that stage, widely acknowl-edge that the episode did bring

ing firm with a direct presence on the islands. "The grapevine works, and things are reported to government."

But Mr Sambrook, while expressing a favourable opinstream banking activity. However, the islands have developed a thriving line in ion of the financial profes als he has met during his first three months in the job, acknowledges readily:

tion down here," says Mr Joe Connolly of Coopers and

Lybrand, the only big account-

credibility is eggshell thick-Adding that his unit is already forging links with British and US regulators to check the past and present standing of companies and individuals, he is determined that "in the first.year especially we have to tread lightly. We can't afford to make mistakes.

Scrutiny of the TCI plans has also become rather more intense since the financial sector in Montserrat, another British dependency in the region and of roughly equal size and sophistication, was this year blinded by a Roman Candle of exploding fringe institutions.
The Montserrat collapses have seriously set back that territory's aspirations as a Caribbean banking centre, arguably pro-viding the TCI with a vacuum Islands picked up considerable business from 1985 onward which might have gone to the Turks and Caicos had its political reputation been better.

insurance licence will need to submit: A business plan indicating their intended areas of opera-

Those seeking a banking or

An explanation why a base

is being sought in the TCI; • Balance sheet details with two years' forward projections; Directors and shareholders

to a vetting procedure.

Even before the new ordinances are in place, large institutions are coming forward. Toronto Dominion Bank, the Canadian banking group, was earlier this year granted a licence, joining its long-estab-lished compatriot, Bank of Nova Scotia, which shares the islands' retail banking business with Barclays of the UK. The locally-managed Turks

and Caicos Banking Company, controlled through a Liberian company, and the Providenciales-based West Atlantic Bank and Trust also operate in the territory but their clientele is hand-picked. According to Mr Anton Faessler, the Swissborn managing director of Turks and Caicos Banking, We don't accept cash deposits. I don't accept anybody I don't know with a suitcase of

No US banks are yet repre-sented on the islands, despite the American dominance of tourist traffic, nor does Toronto Dominion intend to set up a high street presence. Officials at the bank's Canadian headquarters say the new entity will be a deposit-gathering operation for large-scale commercial funds, similar to an existing unit it has in the Cayman Islands.

In addition, one respected but still unnamed private foreign banking group has, out of a number of inquiries, come forward with an offshore licence application which the authorities say meets their preliminary requirements. These are likely to begin boosting the aggregate deposit base for Turks and Caicos banking institutions which, after a 2 per cent leap in 1987, showed slower growth last year, rising

Outside banking, the TCI have developed a thriving line in corporate formations, with the emphasis on speed of service. A new company can be registered within a day, compared with up to a week in some other offshore jurisdictions where proposed names have to be cleared laboriously. Of the 1,444 registered last year nearly all = 1.174 — were year, nearly all - 1,174 - were classified as exempt or foreign, categories which also now make up nearly three quarters of the total 6,729 companies with a TCI registration. This should remain a growth

area even if the islands have come too late to mount an across-the-board challenge to full-service offshore locations.

If niche activities outside banking proper are to be the TCI's way forward, one local firm has staked out what it claims to be a world number one position, which would be the territory's first such title in any financial segment. Mr Reg Bodhanya, managing director of Morris Cottingham, an accountancy-based practice is also active in corporate and asset management, says that his group represents some 700 credit life assurance companies in the US out of about 800 registered in the TCL a figure which last year surpassed the number incorporated in Ari-zona, the previous favourite

These are short-term life polcally require their private, hire-purchase customers to take out for the period of the loan. The risk is undertaken by a US insurance major but laid off partially through reinsur-ing in a tax-efficient jurisdiction elsewhere. At this stage the vehicle dealership, having collected a small and regulated commission as agent for the original policy, can get back in on the act. Larger dealers have been frequently emerging as part-owners of the reinsurance companies – which may sound like bringing the liability back home to roost but instead usually offers a further profit slice to the motor showroom. Mr Bodhanya believes as much as half the entire US car

This very specialised sector makes up the bulk of the insurance company registrations in the TCI, and most of the few dozen others are expected to depart rather than face regula-

ADVERTISEMENT

TURKS AND CAICOS ISLANDS

Expansion of the Offshore Financial Centre: New Unit leads the way.

become increasingly popular among a diverse range of end-sears including attention, tax advisors and private investment banking institutions. Significant refinements to the 1981 Ordinance have now been introduced by amending legislation to come into effect shortly.

The Islands have gained popularity for the following reasons:

- They are politically stable being a British Crown Colony with a history of peace and a low crime rate. They are geographically well-positioned, in the same time-cone as Now York City.
- The official currency is the U.S. dollar, there are no exchange
- There is no direct taxation of any kind. Government fees are lower than in most compoting jurisdictions and
- The Companies Registry is extremely efficient. As a matter of course, a company is incorporated on the same day as the application is lodged, with incorporation documents usually being completed and available within twenty-four bours.
- A flexible companies law giving rise to bighly streamlined procedures of statutory administration.

OFFSHORE FINANCE CENTRE UNIT

OFFSHORE FINANCE CENTRE UNIT

The recent inauguration of the Offshore Finance Centre Unit, with its corps of
specialist staff, marked a significant stride forward in the progressive
development of the Islands as an international centre of finance and
investment. Head of the Unit is a firmer bank inspector, with ten years
experience in offshore trust and corporate management, Derok R. Sambrook,
who as Superintendent of the Unit will play a key role in monitoring the fields
of banking, trusts, companies and insurance as well as vetting applications
for banking and insurance licences. The Deputy Superintendent is Raymond
H. Checkley, a lawyer of long experience in the Islands, who will also remain
Registrar of Companies as well as Registrar of Trade Marks and Patents and
of Shipping.

PROCEDURE ON REGISTRATION OF A COMPANY There are two main types of companies, ordinary and exempted.

The procedure on applying to register both is basically the same. Three copies of the Memorandum and Articles of Association are lodged together with the prescribed fee. The Subscribers must file a declaration that the operations of the company will be carried on mainly outside the Islands. Agents lodging an application must hold the appropriate licence under the Business Licensing Ordinanes.

All companies must have a registered office within the Islands and exempted companies must nominate a representative resident in the lejands for service of process.

- Special privileges attaching to exempted companies. Confidentiality: No requirement to file details of shareholders or
- Authorised capital may be expressed in any currency with no minimum paid-up capital requirement.
- Company name can be in any language, with no requirement for the word "Limited" to firm part of the name. Objects may be unrestricted.
- No requirement for annual general meetings of Shareholders
- Availability of Governor's Undertaking conferring exonoration from fature direct taxation and any increases in annual filing sees for up to

transfer to and from other jurisdictions

Part IX of the Companies Ordinance makes provision for the transfer into the Islands of companies incorporated in other jurisdictions. The Law of the country of incorporation must not prohibit such transfers and there are safeguards to protect creditors and shareholders.

A company wishing to transfer in the feture may obtain a "standby" permit which can be activated at short notice.

GOVERNMENT FEES FOR COMPANIES

Focs are unlikely to be increased in the immediate future. Currently, the fee to register an ordinary company with a nominal capital of up to \$50,000 is \$275. The fee to register an assumpted company with a nominal capital not

The annual (ee is \$250 for ordinary companies and \$300 for exempted

A revised banking law has been approved by the Legislative Council and, together with regulations designed to control bank licensing and to regulate licenses, will come into force shortly. The Superintendent is responsible for the issue of banking licenses and will deal with all licensing applications. Regulations govern procedure and prescribe the fees. There are two kingds of licence: a National Banking Licence (NBL) and an Oversea Banking Licence (OBL). The NBL entitles the licensee to carry on banking business in and from within the Islands with islanders and other residents of the Islands.

The OBL entitles the licenses to carry on the same business from within the Islands except that it may not accept deposits from or lend to, any resident.

- A bank may hold both types of licence, provided that accounting is kept separate or the operations are through separate branches.
- There are no fixed minimum capital requirements. A more flexible system leaves more discretion to the Superintendent.
- All banks must file a business plan. Banks are not required to retain a prescribed reserve fund. NBLs, however, must maintain sufficient assets in the Islands to meet all
- however, must maintain so liabilities as they fall due. A holder of an NBL must file monthly and quarterly statements. A holder of an OBL has to file less detailed returns on a quarterly hasis.

An entirely new Insurance Law has been approved by the Legislative Council and, with regulations to control the licensing and, with monitoring of insurance companies, should come into force shortly. Supervision will be in the hands of the Superintendent.

- No insurance business may be carried on in or from within the islands without the appropriate licence, being one of the following: an Insurance Agent's Licence, and Insurance Broker's Licence, an Insurance Manager's Licence, a Principal Insurance Representative's Licence or an Insurance Sub-agent's
- Every insurer will be required to submit a business plan. Auditing annual accounts and certificates of compliance will generally be required, although the extent of monitoring will depend on the nature of the business.
- Insurers' representatives, whether brokers, agents or managers, will also have to lodge a business plan with an annual declaration of
- Every licenced insurer must file annual returns within three months of the end of its financial year. Information filed will include, where appropriate, audit confirmations, financial statements, actuarial valuations and guarantees. The Governor may relax these
- Regulations will prescribe a fees structure which it is believed will be highly competitive.

A draft law on trusts has bee presented to the Legislative Council and is expected to be enacted in the next few months. It is modelled on Jersey Law person to be enseen in the near a powerful attraction for businessmen ar of when in force should prove a powerful attraction for businessmen are vestors seeking a secure jurisdiction for their assets or those of clients.

CONFIDENTIALFFY

There is a general statutory duty of confidentiality upon banks, professional advisors, Government Officers (including the Unit) and others bolding positions of trust. There are criminal sanctions for unauthorised disclosures. The islands not party to any Double Taxation Agreement.

For further information cor The Pinance Department Grand Turk Turks & Calcos Islands

R.W.L.

Tranquil and friendly destination

THE SWANEES (flamingoes) might be less in evidence now than when the early British explorers came to the islands en route to America, but in just the last few years the sun-seeking tourist travelling down from the US and Canada has "solaced himselfe ashore" in rapidly increasing numbers.

The friendly disposition of TCI "belongers" is one of the territory's best selling points. It is being marketed as a tranquil, top-drawer destination and, following a successful breakthrough in North America, is beginning to attract European interest despite, or perhaps because of, its relative inaccessibility. Those who have favoured the islands with a visit range from the ruling family of Qatar to pop star

Michael Jackson Mr John Hastings, the islands' tourism consultant, estimates that visitor arrivals. numbering 47,000 last year should be roughly matched this year before picking up again to 75,000 in 1990 and as many as 100,000 by the following year, by which time the available hotel capacity should have been expanded by a series denciales, the main destina-tion, and elsewhere.

Providenciales did not exist the world tourism industry would arguably have found necessary to invent it. Indeed, in many ways it has. The island has become a retreat for the worldly-wise as well as a treat for divers in earch of the netherworld. The beaches, a rim of narrow but perfect cream, remain joyfully unclotted with human hordes

Grand Turk remains a village, for all its government activities and offshore finance ambitions, not to mention its own stunning beaches and, the experts say, even better diving. Provo – the shorthand is more frowned on by the purists of the capital than by Providencialians - is a resort, and the contrast is distinct.

It has become so in the short space of five years, is now adjusting to that spurt of growth, and wondering when and how the infrastructure will

catch up. British development aid to the tune of \$15m is this year being used to resurface the island's airport runway, a source of some pleasure to



Turtle Cove Marina. Providenciales: the island is a retreat for the worldly-wise

The sixth of July we came to the Island Caycos, wherein Fernando sayd were salt pondes, assuring us if they were drie, we might find salt to shift with, until next supply; but it proved true as finding sheep at Boque. In this island, whitest Fernando solaced himselfe ashore, with one of the company, in part of the Island, others spent the latter part of the day hunting swanees, whereof we caught many. The next day early in the morning we weyed anker, leaving Caycos with good hope that the first land that we see next should be Virginia.

The Turks and Caicos rope through eighty miles of ocean. They are outcroppings of eolian limestone, piles of fossil seashell bits, really. There are a few hills, but mostly the islands are near sea level or at it. Mangrove tangles fill the low spots. On first glance, as tropical paradises go, the T and Cs are sort of like the roof of your apartment building. Rainfall is scant, topsoil rare. Nice beaches, though, and the wind and water carve the soft rock into rococo shorelines and mysterious sea caves and startling sinkholes fit for Aztec malden sacrifices. The people are hopelessly friendly.

P.J. O'Rourke, 1987.

The government's document

on tourism policy, approved last year, says it "recognises that tourism is a fragile and

sensitive industry, influenced

by economic recessions in source countries, by the fluctu-

ations in international cur-rency values, by the changing fashions in international tour-

ist demands, and by the sense of security and personal safety

created in destination coun-

helped make the islands popu-

iar compared with more trou-

bled destinations in the region

such as Nassau. There are still

fewer than two crimes a day of

any sort reported across the

TCI (the police force numbers

around 100). But crime has

grown in Provo, doubling over

the past two years. Club Médi-teranée recently put locks on its guest-room doors for the

Nevertheless, five years

since it opened, Club Med Tur-

koise has established itself as

one of the most popular vil-

lages in the French company's

first time.

LES HAUTS DES CARAIBES

Parrot Cay

(A PLAN FOR PARADISE)

PARROT CAY DEVELOPMENT COMPANY

Parrot Cay Development Company is pleased to announce that after a number of years of

careful planning and consultations with the Turks and Caicos Islands Government,

agreements have been signed with the Crown and Government for the development of the

Parrot Cay, a 1,000 acre island, is a place of great natural beauty and has over two miles

Following recommendations made by Crown approved environmental impact reports, the multi-million dollar development will ensure its growth will conform to guidelines which

The initial phase of the development will include a five-star luxury hotel with fifty suites

set in thirty-three acres of landscaped grounds on a hill overlooking clear tropical waters

and superb coral reef, together with forty development sites for luxury residential

The attractive neo-colonial hotel will be operated by a Swiss company, Les Hauts de Gstaad, and will provide the most desirable amenities. The hotel will be surrounded by 33

acres of perfect grounds overlooking a vast expanse of unspoilt beaches, pure aquamarine

waters and dramtic coral reefs and will have breathtaking uninterrupted views from each

Further phases of the project will include a first class golf course, club house and golf

villas, the establishment of a permanent diving club, marina, sports' centre and improved air strip. An area of bars, shops and restaurants and a unique and characterful canal

complex, with homes on little reclaimed islands linked to the land by drawbridges.

Transport on the narrow roads of Parrot Cay will be electric and solar-powered vehicles.

The development company's aim is to create a lifestyle and exclusivity unmatched

unique island of Parrot Cay in the Turks and Caicos Islands.

suite. Phase One is scheduled to take 18 months to complete.

of magnificent beaches, turquoise seas, and lush vegetation.

will preserve a unique environment and heritage.

turn in holiday bookings.

those in the soaring local property sector who were becoming worried that Whitehall might have regarded such infusions as an historical one-off of the early 1980s. But neither police nor medical services are keep ing pace with the growth of Provo's permanent as well as tourist population, and roads

Mr Washington Misick, an islander and one of Provo's leading real estate brokers, is concerned about untrammeled development and criticises the quality of some earlier pro-jects. He adds: "The govern-ment should now insist to developers that subdivisions have better roads and facilities

before the lots are sold on. The issue is important because the islands aim to nurture a large number of permanent home-owners in Provo, even if they are not permanent dwellers there, through the development of condominiums and villas to balance the shortstay hotels. This would not only lend some stability to the population, but also provide a degree of immunity to a downIt has a capacity for \$20 gen-tils membres or guests. Although not yet officially announced, plans are fairly firmly in train to add another 100 beds within the next year. During the cheaper summer

months the resort attracts a substantial proportion of holi-daymakers from Europe. Many of them are also attracted by the club's dive operation, the biggest of any Club Med location and able to take 150 people underwater for three dives a day. For the rest, the 600 metres of beach which fringes the club provides ample space to spread out - although it remains Crown Land and is thus not exclusively reserved for the club, at this stage in the development of Provo there remains more room than on many of the group's private

American sphere of operations - and, it is said, the most prof-

itable, turning over \$1m a week in its winter high season

Despite this, as the TCI's first big resort, Club Med has been watched closely by the islanders, with some resent-ment about the exclusivity of its other facilities. But barriers are beginning to come down -recently launched weekly soccer games have given Provo players access to the island's only grassed pitch, while out of 190 local employees, three have now graduated to gentil organi-sateur status allowing them transfers to Club Med operations abroad.

beaches elsewhere.

The dependence of the Turks and Caicos on US imports has meant that, as a holiday desti-nation, it has not sought to compete on price. The latest Club Med brochure provides a Caribbean villages. Turkoise is easily the most expensive. Excluding air fares, a week at

the February peak rate costs \$1,350 per person for double occupancy, some \$150 more than Guadeloupe, the next dearest, nearly a third higher

than the average, and close to

double the rate for Haiti.

Nor is price competition great extent within the TCL A spate of new hotel developments under way will emerge at the premium end of the market at \$100 a night and up, with little incentive for undercut-

The first of these, due to open next year, will be the Ramada Turquoise Reef, with conference facilities and the islands' first casino. The 235room complex, just to the west of Club Med, was originally due to start business next month but has been hampered by construction delays.

These are nothing compared with the funding problems which have bedevilled Provo's proposed Sheraton development, a 229-room hotel where work has been halted for the best part of two years. York Minster Atlantic, the owner, says a refinancing of the \$30m project is coming into place and the new target for comple-tion is early 1991.

A casino is also planned for the Sheraton, and for each of two hotel sites on Grand Turk. If either is completed - and it is believed locally that only one will be – it will transform both the visitor facilities and the local economy of the capi-tal. Business visitors are currently reliant on family-run hotels which can be as small. but colonially charming, as the Salt Raker Inn with just nine

be managed by the US Radison chain was by this month more advanced in planning than a rather larger development of more than 400 rooms put forward by a Nevada-ba sortium. Construction work has yet to begin in earnest on

COMMUNICATIONS

Flying monopoly

THE MAN from Pan Am put it bluntly, as he curled his fingers inward. "We've got you like that," the assembled travel trade was told at the islands' first solo British promotion in London last month

Although an increasing number of charter flights from North America provide weekly replenishment for the resurts of Providenciales, most TCI visitors enter via the Pan Am monopoly scheduled route from Mami. The carrier flies twice a week to Grand Turk, ferrying government officials and an increasing number of business visitors as the offshore financial centre expands, while three weekly flights serve the tourist retreat of Providenciales.

For those who come on business, the difficulty in being able to take a return flight home at short notice is a hindrance. Executive jets and local light-plane charters are both widely used. Those seek-

There is are no scheduled passenger shipping services and only an occasional cruise ship has called

ng a more leisurely approach can find connecting flights from some nearby Caribbean islands through regional carri-ers such as Bahamasair and the islands' own Turks and Caicos National Airline TCNAL

There are no scheduled passenger shipping services, and only an occasional cruise ship has called. There is no port deep enough to accommodate large liners, nor do onshore restaurants have the capacity to handle a deluge of day-trip-

Sea cargo services are operated from Miami, but much of the freight, like all of the passenger traffic, comes by air. Rival airlines transfer their

passengers to Pan Ain for the final hop. Virgin Holidays, part of Mr Richard Branson's UK leisure empire, has been selling packages to the TCI for the past two years, flying holiday-makers as far as Miami on its

own Virgin Atlantic service.

Will the position change?

Local tourism authorities are painfully aware of the prob-lems that would occur if Pan Am's perennial financial plight forced it into retrenchments on its Caribbean routes. Longtime TCI residents have seen a multitude of smaller, mainly Florida-based airlines come and go, and Pan Am has stayed the course longer than most. However, the government

as been talking recently to at least one further US major, understood to be American Airlines, about introducing a parallel service perhaps from the north-east seaboard. The possibility is also being aired that TCNA might acquire a jet for a Miami run of its own, but the privately-owned status of the local carrier would make it difficult to find any British aid for such a venture.

Longer-haul routes are ham pered by the limitations of TCI airport runways, which are not designed to take airliners much larger than the Bosing 727s used by Pan Am. A DC-10 was tried once into Providen-ciales - it landed and took off safely, but tore parts of the tarmac to shreds on departure. That airport, in particular, the subject of a \$10m-plus UK aid contribution in the early 1980s to encourage tourism, is widely seen now to have been poorly sited. With water one end and a hillock the other, any future

extention of the runway will be difficult and costly.

Once on the islands there are two lifelines. One is TCNA's fleet of mainly seven-seater planes, which all but the poc-

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vice. Maximum fare within the TCI is \$52 for the half-hour trip between Grand Turk and Provo. The other is Cable and Wireless, the British company, which operates a telephone system which is modern and efficient, although ferociously expensive for international

The high cost, as with most things on the TCI, is explained by small volume. Calls to the UK cost \$3.30 a minute at peak rate, rather more than double the charge that applies in the other direction, while businessmen note that, unlike its sister company Mercury in the UK, Cable and Wireless (West Indies) offers no bulk user dis-counts in the Turks and Cai-cos. "There is just not much bulk," says Mr Martyn Robinson, TCI marketing manager. A punitive \$5 fee for any reverse-charges call booked through its system is, however expected to be withdrawn.

> The high cost of international calls from the islands is explained by small volume

The group's 20-year fran-chise has only about two years to run, and negotiations for a renewal are under way, with Cable and Wireless confident that it will be kept on — it has recently been adding new digital exchanges, for example. Asked if a rival with existing regional operations such as AT&T of the US could step in Mr Rohinson says: "It's a big world - anybody could come ernment. But in the real world, we are here, and we have a lot of kit in here."

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INDUSTRY AND FISHERIES

CASSAVA, cotton, sisal, salt, and seafood - all have had their time in the Turks and Caicos. But the time for all, as a means of support for any populace, has gone. Prospects are slim that any future prod-uct will take their place.

Conversations about industrial or resource-based activity on the islands immediately veer in one of two opposing directions. Whether govern-ment minister, appointed official, or an operator within the private sector, there is either a resigned shrug to the inevitability of an externally fuelled economy through tourism and offshore finance, or an excit-able exposition of the latest in a long line of feasibility studies which in the end have produced nothing but paper and consumed little except admin-

Cassava cultivation died out with the Arawak Indians in the 16th century, and the other two cash crops historically cultivated in the somewhat more arable west of the chain, bore testimony largely to the initial enthusiasm of the Loyalist settlers who arrived from the American South after the revo-

The salt industry, established around the middle of the 17th century and based on the arid easterly settlements of Grand Turk, Salt Cay and South Caicos, lasted a good 300 years and was clearly what those islands could do best. Unsurprisingly, then, there are perennial hopes that it may be revived - the collapse of the business in 1964 came about because competing countries such as the Bahamas had made technological improvements which the TCI had not

Just behind the double row of buildings which makes up Cockburn Town, the islands' capital on Grand Turk, lie its inland salinas or salt beds, now ragged, stagnant and unappeal-ing. Last year the rights to a salinas on Salt Cay were taken up by Sun Crystals, a US group, raising local hopes. But another season has come and gone without any sign of movement beyond an opening cere-

According to the TCI Private Sector Development Office, the expected capital injection if the project gets under way is of the order of \$60m, and up to 450 local workers could again be employed in the industry. Mr Derek Taylor, the Minister for Commerce and Development under whose department the private sector office falls, says his understanding is that suit-

Future expectations are all at sea

able financing has not yet been arranged.

Mr Taylor sees the main problem besetting the islands not as a lack of resources, skills, initiative, or even project funding, but transport. He wants to see an inter-island ferry service so that goods can

> Marine products remain the only significant export industry of the islands

be shipped out from a central point, possibly by establishing a port on the uninhabited West Caicos, the only island not to be bound by a coral reef. The minister, a former senior customs officer, goes further, arguing: "We are stra-tegically located in every

respect you can think: north/

ELABORATELY encased as they slowly patrol the seabed off the eastern coast of Provi-

denciales, some hundreds of thousands of conches this year

carry more than the usual

heavy burden of their pearly-

The mollusc class of 1989 is intended to form the first full commercial output from Cai-

cos Conch Farm, and mark the graduation into reality of a

15-year dream harboured by

Mr Chuck Hesse, an American biologist and engineer who

runs it with a staff of 25 on behalf of Trade Wind Indus-

TWI, with about \$3.5m in capital, is owned by 18 North

American investors. Mr Hesse

describes it as "one of the few non-suitcase shareholder com-

panies in this country", adding that there is no soft aid money

in the venture, nor do the

investors use it as an offshore financial manoeuvre. He

expects it to be in profit in two

have used conch as a subsis-

Turks and Caicos belongers

tries (TWI), the owner.

have a trans-shipment point with European goods and goods from Canada coming here during their winter sea-son for stockpile while their ports are frozen." West Catcos, he adds, could also be ideal for oil bunkering and would allow direct shipments of a variety of products from the UK in order break the Miami strangle-

Meanwhile, marine products remain the TCI's only significant export industry, produc-ing more than \$4m in annual revenues, mainly from conch meat but with lobster as an important, and premium priced, secondary catch.
In the face of this, though,

comes one of the region's sadder coals-to-Newcastle stories: while South Caicos islanders are packing shellfish to be shipped abroad, hoteliers in Grand Turk balefully admit to

Mollusc class of '89 prepares to graduate

Conch farm enterprise

tence food for centuries, as has been the case in Cuba, the Bahamas and Belize – stocks

elsewhere in the Caribbean

have largely been depleted. Because of the Hispanic population it is also eaten in south

Fiorida and has more recently

the islands in 1974 it was

being sent dried to Haiti as barter for the fresh vegetable

produce which the TCI lacked.

He steered the fishermen of South Calcos in the direction

of the Miami market instead,

where they still sell most most

of their export catch, now in

frozen form. The business ships between 600 and 700

worth more than \$2m annually

Various schemes for couch mariculture have been pro-

posed over the years as a way of strengthening Caribbean economies, but no one has

Mr Hesse. He says of the coun-

tries in the region: "Their abil-

ity to be economically success-

in export revenues.

es a year abroad and is

ecome prized as a delicacy. When Mr Hesse arrived on

Mr Taylor, his point about transport problems thereby illustrated, says the government is at the same time concerned about overfishing and the illegal use of chlorox, a bleach dropped in the water to agitate shellfish and move them towards waiting boats.

The government is considering a closure of the lobster season for two to three years, while encouraging the extrac-tion of scalefish such as red snapper which have been so far neglected. Mr Taylor says that Japanese boats hover just outside TCI waters "and we would love to know what they are catching".

A shift to scalefish would,

however, mean venturing into deeper waters with bigger boats than the 16-footers which are now used at the traditional fishing centre of South Calcos and also to a large extent at Providenciales, where the busi-

underwater cow or sheep'

been lost by then, survival rates are far higher than in

lobster and other predators.

They are then put into a 100-hectare fenced ocean "pas-

ture". leased from the govern-

ment, where they spend the

remainder of the year. Caicos Conch Farm expects

to produce 300,000 animals in the current year, rising to an eventual target of 1m. This would boost the islands' export capacity by as much as

argues provides no better a "If we have a had few weeks

The half-dozen seafood packing companies which the

islands support are nearly all

US-controlled, but the local

fishermen own their own craft and simply sell them their pro-

duce day by day. With the average lobster catch down to

perhaps a third or a quarter of

levels five years ago, managers of the plants say the capital

needed to upgrade to larger

ocean-going boats is just not available.

the Opposition and a represen-tative of South Calcos on the

Legislative Council, endorses

the need to move into scale-

fish, which account for little more than a tenth of current

fisheries exports. Fishing sus-

tained his island even when

the salt business disappeared.

but he is concerned about the recent drift of men and boats

Mr Alden Durham, Leader of

here, it shows in the local economy," he says. "People can't pay their bills in the shops. We have had an exodus to Provo, but it's not good for us, and not good for the people who go. They have to boil two pots, as the islanders say -they have a wife and children for whom they have to provide then they have to rent an apartment in Provo. Some have drifted back."

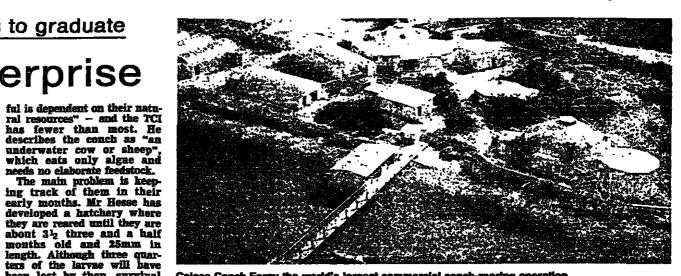
The haemorrhaging of young talent and initiative has been felt even more keenly when TCI "belongers" have gone abroad to seek the advancement which has not been available to them locally. This includes not only the academically-gifted - the TCI can offer no tertiary education and most of those who go overseas to seek it do not return - but also a range of other islanders who are most commonly to be found working in hotels or on construction projects in the

vary widely, with some clarity expected from a Turks and Cai cos census due to be undertaken next year, the first since 1980. But it is believed that at least as many islanders are living abroad as those who have

There is no tertiary education and most of those who go overseas to seek it do

Mr Oswald Skippings, the Chief Minister, puts the figure as high as 40,000, but this would include second and third-generation families who, while retaining the right to abode in the TCI, have few real

Mr Skippings hopes some will return as the pace of tour-



Calcos Conch Farm: the world's largest commercial conch-rearing operation

Hong Kong jewellery makers as a source of demand for the shell, the most striking thing about the animal, which on South Caicos is discarded from the fishing boat. He has exper-imented successfully with cultured pearls, as in oysters

they occur once every 10,000 in the wild in colours ranging from brown to a sought-after pink which can fetch hundreds

d dollars apiece. He is developing markets

such as aquarium suppliers in the US - because of their feeding habits, juvenile conches are good for keeping fish tanks clean. Rather than retain his exclusivity, Mr Hesse also wants to sell fran-chise rights to start farms elsewhere in the Caribbean. For the meat itself he sees China and Japan, where conch is eaten, as important future

He wants to add value to what is now a straightforward bulk product for the islands, by producing fillet portions derised to break down the rub-bery consistency which can

thwart an inexperienced cook. But he is resisting offers which he regards as side trackwinter the enterprise. One group wanted to buy the whole business so it could supply the young as "conch escargots" to the New York restaurant trade. "I got into this business to grow meat," he says.

ist sector development steps up. He is optimistic about two large hotel projects proposed for Grand Turk but acknowledges that the capital would have difficulty in accommodating anything more than ifiner-

ant workers. Nationals from Haiti to the Philippines have been brought into Providenciales to work on developments there while building workers particularly from North Caicos, which tra-ditionally supplied a lot of labour for that industry, have headed abroad.

North Caicos may experience return influx with the planned commencement of work on Parrot Cay, a small neighbouring island where Bovis of the UK is due to build a 50-suite luxury hotel and villas in a long-delayed £200m project initiated by Mr Patrick Ellis. He has long-standing links with the TCI and hopes to employ as many as 200 islanders in the building stage.

An even larger \$535m proposal disclosed this month by Mr Liam Maguire, a California-based British entrepreneur, could if successful provide an enduring activity for the islands including North and South Caicos in the neglected middle of the TCI chain between Grand Turk and

He has received outline endorsement from Mr Skippings for the elaborate plan, which would be the islands biggest development scheme. It involves dredging a deep harbour (between south and East Caicos rather than at the distant West Caicos as envisaged by Mr Taylor). From this, a "theme port" would be created to attract cruise ships. Funding for work in progress would be aragonite, an ultra-fine seasand which the port dredging would yield. Aragonite is used in various manufacturing processes such as paint and has applications in coal-fired power stations for limiting the exhaust gas emissions which cause acid rain.

Financing is, however, far from being fully in place, and will depend partly on the international response to a planned bond issue. This would be made a private offering in \$250,000 denominations convertible ultimately into land and offering residence rights thought to be a way of attracting Hong Kong funds. Resources experts believe the project will also need not to depend too heavily on aragocloser to US mainland consumers have been mothballed in

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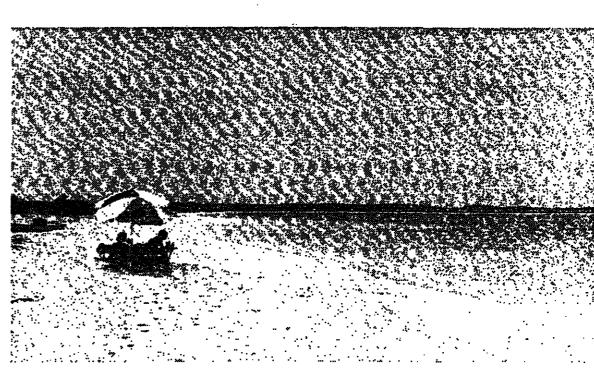
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AND CAPITAL MARKETS

Nov.24	Day's spread	Close	Que month	0.2.	Three months	₽ £
/S	1.5600 - 1.5680	1.5620 - 1.5630	0.85-0.83com	6.45	2.53-2.50pm	6.4
haada	1.8210 - 1.8310	1.8210 - 1.8220	0.47-0.3900	2.83	1.28-1.18pm	2.7
letherlands .		3174 - 3.184	17-15 cpm	6.60	54-43 pm	6.3 4.5
elgium	59 05 - 59 40	59.25 59.35	27-22mm	4.96	77-70om	4.5
emain	10.93 - 10.97 4	10.956 - 10.965	2%-24 oregon	2.67	84-7400	21 3.
related	L0670 - 1.0750	1.0690 - 1.0700	0.40-0.35mm	421	0.90-0.80pm	3.1
V. Germany	281-2825	2814 - 2824	14-15-րայա	7.18	4%-4 pm	6.4
ortegal		243.00 - 244.00	15-32cam	-1.16	82-18369	-2.1
oats	180.30 - 181.25	180 50 180 80	7-1com	0 27	9-4pm	0.3
Man		2078 - 2079	4-31(resm	202	12-10pm	2.1
		10.724 - 10.734	2%-2% orean	294	74-6400	26
fance	9604 9634	962-963	34 - 34 com	4.36	74-7400	3.0
MEGEL	9.994 - 10 03 %	10 025 - 10 035	24-25 arenn	307	7 5-7 40m	2.9
2020	223 225	2234 - 2243	15-11-ypm	0.36	45-45pm	8.0
ustria	19.82 - 19.90	19.83-1986	10%-10gropes	انتنا	31 % 28 pm	60
	2516-2524	2513-2523	15-17-cim	7.43	41 ₂ -4 5 pm	7.0
elterlæd . CU	1.3810 - 1.3900	13890 - 13900	0.50-0.47com	4.1B	141-136mm	3.9

MONEY MARKETS

Japan may follow the Fed's lead

THE BANK of Japan seems unconcerned by the yen's fall against the D-Mark it will certainly do no harm to Japanese exports and may be part of the reason why the Nikkei Index hashit record highs in Tokyo.

UK clearing bank base lending rate 15 per cent from October 5

This week the Bank of Japan is likely to inject liquidity into the domestic money market to prevent tight conditions lead-ing to higher interest rates. An increase in rates would help support the yen against the D-Mark, but comments by Mr Satoshi Sumita, the Governor of the Bank of Japan, appear to rule this out. The D-Mark is already poised to attack Y80.00 this week and

£ IN NEW YORK

traders do not rule out a future rise to Y85.60. Frankfurt interest rates have a substantial advantage over

Tokyo and the threat of importing inflation from East Germany is only likely to make the West German Bundeshank increase that differential. But

Tokyo seems more interested in the actions of the US Federal Reserve.

The Bank of Japan and the Fed supported the yen when the dollar rose above Y14.00 last was before the total to the test but that was before the total to the test but that was before the test but the the dollar rose above Y144.00 last week, but that was before suspicions were roused that the Fed is again easing its monetary stance. On Wednesday the Fed added liquidity in New York, even though Federal funds were trading below the assumed target of 8½ per cent. The Fed drained reserves on Friday, but possibly only to on Friday, but possibly only to underpin a new target rate of 8% per cent. If it has eased, the Bank of Japan may follow suit.

CURRENCY MOVEMENTS

Nov.24	Cles	•	Previous Close	Nov.24	Bank of England Index	Morgan ^{as} Goaranty Changes %
£ Spot	1.5620-1 0.85-0 2.54-2 8.73-8	.849m .52pm 63pm	1.5645 - 1.5695 0.93-0.92pm 2.57-2.55pm 8.67-8.57pm	Sterling	85.7 69.3 105.3 108.8	-23.9 -8.8 +1.8 +11.3
·	ms and disc		y in the US dollar	Beiglan Franc	108.2 107.0 116.8 106.6 113.1 101.6	+1.7 +23.6 +15.4 +15.5 -14.2
		Nov.24		French Frans Lira Yeo	99.8 134.7	-18.8 -18.8
8.30 am 9.00 ass 10.00 am 11.00 am Noon 1.00 pm		86.7 86.6 86.7 86.7 86.7 86.6 86.8	86.9 86.9 87.0 87.1 87.1 87.0 87.1	Morgan Guarant 1982 - 100. Bask of 1985 - 100 Plates an	y changes: a England index torNov.22 .	verage 1980- (Base Average
3.00 per 4.00 pes		86.8 86.7	87 1 87.0	Nov.24	:	S
CUR	RENC	Y R	ATES	Bragii	- 10.4790 6.6 - 6.6065 4.2 - 258.95 16 - 12.2225 7.8	2755 - 1.2765 1610 - 6.6950 1210 - 4.2230 2.90 - 165.50 1310 - 7.8120 50° 0.40 - 675.40
Nov.24	Bask rate %	Special* Drawing Rights	Europeas † Carrency Unit	Kusait 0,46200 Luxembourg 59.25 Malmsia 4,2255	-0.47000 0.24 -59.35 3 -4.2360 2.7	9740 - 0.2981.0 7.90 - 38.00 7030 - 2.7050
Sterling #	7 12.46 6 ¹ 2 10 ¹ 4 10 ¹ 5 6.00 7.00	1.22533 1.26268 1.50074 16.2990 48.6296 9.00185 N/A 2.61282	1.38128 1.13156 1.32041 14.3515 42.8096 7.91863 2.03759 2.29898	N. Zerland . 2,6585 Samil Ar 5,8670 Singapore 3,0550 S. Ai (Cm) 4,0790 S. Ai (Fe) 6,1335	-2.6645 1.7 -5.8720 3.7 -3.0620 1.9 -4.0895 2.6 -6.2560 3.9 -40.85 2	0.00 - 2650.00 7000 - 1.7030 7500 - 1.7510 7520 - 1.9550 1115 - 26130 1215 - 4.0000 6.05 - 26.10 1725 - 3.6735
French Franc Italian Lira	101	7,89746 1707.73	6.95737 1505.14		elling rate	
Japanese Yen Norway Krone	31	184.514 8.79277	162.435 7.75455	POUND-S (FOREIGN E		_# 18 _v
Spanish Peseta . Swedish Krona .	91 ₂	148.410 8.20787 2.06101	130 806 7.24309 1.82180	Sect. 1-mth 1.5625 1.554		-mth, 12-ceth. 5144 1.4760
Serks Frant Greek Drach Irish Part	2012	210.340 0.88461	185.779 0.773290	DAM-STERLING \$4 pe	£	
# Sterling quote † Exropean Com All SDR rates	misssion Ca	of SOR as	ed ECU.per E.	Clos Dec 1.554 Mar 1.529 Jun 1.507	5 156[2 L 3 15368 L	Low Pres. 5640 1.5670 5296 1.5326 5090 1.5104

WEEKEN	· — —
Residential Prop (mono) (Full Colour) (Spot Colour Per Colour) Personal , Mail Order, Appeals , Education, Motors, Travel Diversions Weekend Business Arts, Collecting Art Galleries	Per line col cm (min. 3 min 3 (lines cms £ £ £ 6.00 27.50 44.00 min 3 (lines cms £ £ £ 6.00 20.00 45.00 20.00 13.50 46.00 10.00 33.50 2.00 - 2.00 - 2.00 - 2.00 - 2.00 - 2.00 - 2.00 - 2.00 - 2.00
Books Page Books Panel All prices exclu For further detail. Classified Advertisen	s write to:
FINANCIAL 1 Southwark Bridge, Lo	TIMES

apitalisation			Change	Gross	Yield	
£000.4	Company	Price	on week	div (p)	%	P
7981	Ass. Brit. led. Ord	336	-1	10.3	3.1	9
625 110422	Armitage and Rhodes	25	-1			
17976	Bardon Group (SE)	161	0	4.3	27	15
4536	Bray Technologies	103 75	0	6.7	6.5	
4330	Bremhill Com Pref	75 103	-1	5.9	7.9	6
	Bremhill 84 New C C.R.P	103	0	11.0 11.0	10.7	
1159	CCL Group Ordinary	305	+3	14.7	10.7	
2163	CCL Group 11% Cone Pref	173	0	14.7	4.8 8.5	3
16740	Carbo Ple (SE)	205	-5	7.6	3.7	12
770	Carbo 7.5° Pref (SE)	110	-0	10.3	9.4	14
	Magnet Gp Non Voting A Cnyo	1.5sus	ŏ	-	.	
	Magnet Gp Non Voting B Cove	0.75sus	ŏ			
9558	Isls Group	120	ō	8.0	6.7	6
22759	Jackson Group (SE)	106	-2	3.6	3.3	12
21054	Multihouse N.V.(AmsiSE)	270	-15	-		
1571	Robert Jenkins	154	-1	10.0	6.5	5
17760	Scrutters	370	-3	18.7	4.0	9
9242	Torday & Cartisle	299	0	9.3	3.1	10
	Torday & Carlisle Com Pref	103	-1	10.7	10.4	
3442	Trevian Holdings (USM)	80	0	2.7	34	8
	Unistrut Europe Conv Pyel	155	-4	9.3	60	
594 0	Veterinary Drug Co. Ltd	360	0	22.0	6.1	9
			-			26
7168 Securities of The ISE, Of These securities are Limited are	W. S. Yeates	320 It in subject It in subject thed barga itet makers	0 It to the rule It to the rule In basis. Net In these sec	16.2 s and regulated the TSA ther Grassvarities.	5.1 Iletlons d	ď

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DOL	LAR	SPO	r- FC	RW/	ARD A	AGAI	NST	THE	DOL	
Nor.24	1	Day's pread		Close	_	e inontit	% p.s.	Th	ree nths	90
UKT Irelandt Canada Ketherlands Belgium Desmark W. Germany Portogal Spaln Rormay Fraince Sweden Japan Switzerland Switzerland Dommercial arcesiums Argaes, Fina	1,560 1,456 1,165 37,7 6,971 1,73 1,73 1,56,2 1,15,2 1,2 1,2 1,2 1,2 1,2 1,2 1,2 1,2 1	0 - 1.5690 6 - 1.4650 6 - 1.1470 6 - 1.1470 7 - 20.355 9 - 7024 9 - 7024 9 - 7024 9 - 1.8080 1.56 65 1.56 65	1.46 1.16 2.03 37.7 7.01 1.80 1.15.1 1.15.1 1.15.1 1.16.1	20 - 1.562 10 - 1.462 70 - 1.168 90 - 32,000 14 - 7.011 95 - 156,6 70 - 115,8 30 - 1330 14 - 6.364 14 - 6.424 90 - 143,5 97 - 1.6150 17 - 1.6150 18 - 1.6150 19 - 1.6150 10 - 143,5 10	9 0.2 0.3 0.3 0.3 0.3 0.3 0.3 0.3 0.3 0.3 0.3	5-0 83cpm 9-0.25cpm 9-0.25cpm 4-0.37c85s 9-0.01cdin 0-5.50c28s 2-30crefts 2-30crefts 5-5-20freddin 5-5-20freddin 1-07cdis 1-107cdis 1-107cdis 1-107cdis 1-107cdis 1-0.21cpm 8-0.21cpm 8-0.21cpm 8-0.21cpm 1-0.21cpm	1.03 1.03 1.05 1.05 1.05 1.05 1.05 1.05 1.05 1.05	2.53 1.18 1.09 0.03 12.50-1 0.09 32 14.40- 6.65 3.30 5.60 0.57 0.70 0.25	-2.50pm -1.06pm -1.13dh -0.07ds 15.50ds -1.60ds -1.06pm -3.90ds -1.95ds -1.95ds -5.95ds -5.95ds -1.20ds -0.18pm -1.20ds -0.18pm	
		RO-0	CURE	EMC	Y IN	TERE	ST I	RATE	S.	_
Hen 2	-=	Short term	7	Days otker	Oate Month	1	Terre Contles	Siz		One Year
Sterilog		143-14; 8,12-114 8,12-114 8,12-13 74-6 12-10 91-91; 91-91; 61-6 121-111 81-84	8 12 13 10 10 10 10 10 10 10 10 10 10 10 10 10	-144 -144 -84 -84 -64 -75 -104 -95 -124 -86	154-1: 82-8; 124-11 84-84 74-74 74-74 104-10 13-12; 91-9; 104-9; 64-64 124-11; 82-8;	8 12: 8: 10: 10: 10: 10: 10: 10: 10: 10: 10:	-15 -81 -71 -81 -71 -102 -103 -11 -61 -81	14% 14 81 8 12-11 81 87 712-71 81 81 102-10 123-11 101-9 612-61 118-81		45-1 83-1 111-1 83-74-83-1 104-1 1184-1
Long ter ears 8½-8,	en Eurodoi , per cent	ilars: two y nomina). S	ears 8 ¼ -6 hort lerm	,] per cent rates are o	t; three yea call for US	ns 812-84 Dollars as	per cest; f d Jäpanes	haer years (e Yen; oth	31 ₃ -81 ₅ pe ers, tsen da	r cent; gs' do
		Đ	CH	NGE	CRO)SS I	RATE	S		
Nov.24	٤ ا	5	DAI	Yea	F Fr.	S Fr.	H FI.	Lira	cs	8
£ \$	1 0 640	1.563 1	2.820 1.804	224.3 143.5	9 625 6.156	2 523 1.614	3.183 2036	2079 1330	1.822 1.166	59 37
DM YEN	0.355 4.458	0.554 6.968	1 1257	79.54 1000	3.413 42.91	0.895 11.25	1.129 14.19	737.2 9269	0.646 8.123	21. 26.

Nov.24	£	5	DEA	Yes	F Fr.	S Fr.	H FI.	Lira	CS	8
£ \$	1 0 640	1.563 1	2.820 1.604	224.3 143.5	9.625 6.156	2 523 1.614	3.183 2036	2079 1330	1.822 1.166	3
DM YEN	0.355 4.458	0.554 6.968	1 1257	79.54 1090	3.413 42.91	0.895 11.25	1.129 14.19	737.2 9269	0.646 8.123	2
F Fr. S Fr.	1.039 0.3%	1.624 0.620	2.930 1.118	233.0 88.90	10. 3815	2.621 1	3.307 1.262	2160 824.0	1.893 0.722	6
H FI. Lina	0.314 0.481	0.491 0.752	0 886 1.356	70.47 107.9	3.024 4.630	0.793 1.214	1 1.531	653.2 1000.	0.572 0.876	2
C S B Fr.	0.549 1.685	0.858 2.636	1.548 4.755	123.1 378.2	5.283 16.23	1.385 4.255	1.747 5.368	1141 3506	3.073	10
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	FT	LON	DOI	HI P	TER	BAN	ik i	7XII	NG	

The History rates are the art quoted to the market by th Bank, Bank of Tokyo, De	he reference b	ooks at 11.00 a	LML Each Work	ing day. The ba	enics are Mation	rates for \$10 al Westerinst
NEW YORK		IONE		Bills and I	Bonds	
(4pm) Prime rate Broker loan rate Fed.funds Fed.funds at loterwerking		he monte Two month Three stooth Ty month Two year		7.83 Four: 7.77 Five: 7.69 Seven 7.60 10-ye		7.67 7.71 7.76 7.79
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rankfurt	7 20-7 30 10 ½-10 ½ 6 ½-7 ½ 8 15-8 30 6 ½-6 ½ 12 ½-12 ½ 10 75 10 ½-10 ½	7.55-7.70 101-101 71-73 8.25-8.31 613-613 123-13 91-913 101-111	800-815 102-103 -	800-8-15 1012-105 75-73 835-8-43 611-68 125-131 911-92 111-12	8.05-8.25 10½-105 12½-12½	8.00 9.50 - - -

Patricular in community of	77-77-	1071-1170	#1		12 12 12 13	L
L	OND	IN M	ONEY	KATE	:5	
Nov 24	Övernight	7 days notice	One Month	Three Months	Six · Months	One Year
Interbank Offer Interbank Bid Sterling CDs. Local Authority Deps. Local Authority Deps. Local Authority Deps. Discount Mkt Deps. Company Deposits Finance House Deposits Finance House Deposits Finance House Deposits Fine Trade Bills (Buy) Bank Billis (Buy) Bank Billis (Buy) Bollar CDs. SDR Linked Dep. Bid ECU Linked Dep. Bid ECU Linked Dep. Bid	148	145 14% 14% 14% 	154 15 15 15 14 14 14 15 14 16 16 16 16 16 16 16 16 16 16 16 16 16	15.4 15.1 15.1 15.1 15.1 15.1 14.1 15.2 14.1 15.2 16.1 10.1	141114 14114 1411 1514 1610 917 1014	1412 1413 1413 1414 - 1414 - - 8.00 9 84 1012
Treasury Bills (sell one-month 148) per cr discount 14 4853 p.c. & Agreed rates for peri Schemes II & III: 16.22 V&V. 15.084 p.c. Lor V&V. 15.084 p.c. Lor Used. Finance Houses seven days notice 4 per leid under one month 1 six-nine months 13 per 10ct 9.1989, Deposits	nt; three market in the control of t	entis 14,4 Rate Sterring 26 1989 Extra for proper and Financis from Norm Cates of Tacone three representations when the serve months even months	per cent; Tr og Export Fin to Decembe eriod Sept 30 noe Houses s ember 1, 19 ox Deposit CS months 13 per s 13 per cent;	easury Bills ance. Make r 25 , 1984 J.1989 to Oce even days' n 189: Bank D eries 6): De rr cent: three	Average to up day Octob Scheme !: tober 31 , 1° tolice, others aposit £100,0 -six months	nder rate of ser 31 ,1989 15.66 p.c., 789, Scheme seven days' for sums at 100 and over 13 per cent:

BANK OF	ENGL	AND T	REASURY BIL	L TENI	DER
	No.	14 Nov.17		Nov.24	Nov.17
311is on offer	£300 £117	n 5500er	Top accepted rate of discount	14 45%	<u>%14.0%</u>
otal of applications	5300	E £500m	Average rate of discount Average yield Amount on offer at next tende	14.9850	% 14.9650
finimum accepted bid Hotmest at minimum ferei		95 296 400	Amount or offer at next tende Mippinson accepted bid 182 da	5300m	5 93.13
HANNEST & MISHINGS ISSES	747	9779	Laibiusin birthita an 105 6	45. E73.11	273.13
WEEKLY C	HANG	E IN W	ORLD INTERI	ST RA	\TES
ONDON .	Nov.24	change	HEW YORK	Nov.24	change
Base rates	15	Linch d	Price rates	1012	Uncird
day interbank	1413 151	<u>-</u> 4	Federal Funds	8 L 7.72	020 020 022
reasury Bill Tender	14.4453	+0.0186	6 Mtb. Treasury Bills	7.66	1 7326
Band 1 Bills	14%	Unch'd Linch'd	3 M ta. CD	8.20	-0.22
Band 2 Bills	T4-4	Union G	FRANKFURT		l
Band 4 Bills		-	Lombard	8.00 7.625	Usch'd -0.075
3 Mth. Treasury Bill I Mth. Back Bills	141	+å Unchre	Three month	8.075	مُفتة ا
3 Mith. Bank Blais	1413 1412		PARIS		1
OKYO		! ~	Untervention Rate	91,	Unch'd
One month Bills	號	+1). Unch'd	Three mooth	91 ₂ 101 ₄	13
REUSSELS	ᅋ	UNICITO .	MILAN		l ' "
Out andip	9%	Undrd	Ose month	124	+4,
Three month	9%	Uneh'd	Three growth	13	+16
MISTERDAM			DUBLIN Gee month	i	١.,
One month	8.28 8 39	-0.105 -0.06	Three moreth	112	詳

	SURY BONDS 2nds of 160					ESE YI N S per	Y108			
Dec Mar Jun Sep Dec	Gose 99-22 99-22 99-15 99-04 98-26	99-29 99-29 99-29 99-21 99-07 98-29	99-21 99-20 99-14 99-02 98-23 98-15	Prev. 99-21 99-20 99-12 99-00 98-21 98-11	Dec Mar Jun		Close 0.6974 0.6999 0.7018	High 0.6980 0.7007 0.7020	0.6966 0.6990 0.7020	Prev. 0.696b 0.7014 0.7034
Jun	98-16 98-07	98-17		48-01				}		
Sep Dec Mar Jun	97-23 97-15	:	:	97-16 97-08	Dec Mar Jun		Close 0.5558 0.5559 0.5554	Ga 0.5569 0.5561 0.5551	0.5532 0.5530 0.5535	Pres. 0 5512 0 5512 0 5508
U.S. TREAS	WRY BILLS	CMMC							_	
Dec	97.82	High 92,87	Low 92,78	Pres. 92.77		MONT o zinie	H EUROOK 199%		IND	
Victorial Supplemental Suppleme	93.49 93.61 93.53	93.50 93.62 93.53	93.44 93.57	93.45 93.58 93.49	Des Maar Jen Sep Orc Mar Jen Sep		Close 91.78 92.32 92.43 92.99 91.99 91.90 91.72	High 91.79 92.97 92.95 92.95 91.92 91.90 91.73	1.75 92.30 92.41 42.29 91.97 91.88 91.76 91.68	Prev. 91.74 92.30 92.40 92.26 91.95 91.87 91.75 91.67
SWESS FRA	UNIC COMBAÑ O S ter SFr					3 GEA 다 당마리	P0012S 51	O DIES		
Dec Mar Jun Sep	Ciose 0.6229 0.6225 0.6229 0.6236	High 0 6221 0.6226 0.6228	0.6192 0.6198 0.6208	Prev. 0 6209 0.6214 0.6218 0.6226	Dec Nar Jun		Clear 345.25 349.50 353.35	High 344 24 349,80 353 65	241,91 347,80 352,20	Pres. 341.91 346.80 350.70
PHILABELP C31,250 (c)	HIA SE E/S	CPTIBILS								
Strike Price 1 500 1 525 1 550 1 575 1 600	Dec 6.00 3.62 1.84 0.76 0.21	Jan 621 4.13 2.53 1.44 0.79	Calls F. 4 3 1 1 1 1 1 1	17 28 29 20 21	Mar 5-30 1-52 3-14 2-24 1-57 1-01	Dec 0 07 0 39 1 26 2 59 4 56 6 34	Ja 0.6 1.4 2.4 3.4 5.7 7.8	7 7	Feb .66 .59 .78 .31	Mar 2.40 3.40 4.72 6.27 8.04
1 625 1 650 Previous dan	0.07 0.01 /s open lut: /s volume: (0.37 0.20 Calls 329.	0.7 418 Puts	12 (344.361	1.63 (31) carre	9.21 icks)	10.0		.04 .23	9,99 11.98

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS		FRID/	AY NOVEM	IBER 24 19	19		THURSDA	y Mov emb e	R 25 1909	DO	LLAR INDE	X
Figures in parentheses show number of stocks per grouping	US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency index	% change local cur- rency since Dec.30 '88	Gross Div. Yleid	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	145.29	+ 0.6	137.88	123.31	+ 9.5	5.50	146.45	139.00	124.53	160.41	128.28	149.87
Austria (19)	145.74	+51.9	138.29	138.59	+54.1	1.78	144.31	136.97	136.24	172.22	\$2.84	99.05
Belgium (63)	146.55	+8.5	139.06	137.16	+ 10.2	4.04	145.51	138,11	137.07	146.55	125.58	135.37
Canada (122)	149.06	+ 18.7	141.44	126.02	+ 16.1	3.22	148.40	140.86	125.56	154.17	124.87	120.83
Denmark (36)	230,49	+35.3	218.71	219.91	+38.3	1.44	228.63	217.01	219,30	230,49	165.35	152.99
Finland (26)	119.32	- 8.8	113.22	105,73	-7.5	2.67	118.63	112.60	105.70	159.16	118.63	134.60
France (126)	136.77	+ 18.9	129.77	132.16	+20.9	2.81	135.21	128.33	137:23	139.94	112.57	111.72
West Germany (96)	102.13	+ 16.1	96.90	95.84	+ 18,1	2.18	100.36	95.26	94.75	103.84	79.58	87.75
Hong Kong (48)	118.96	+6.4	112.88	119,31	+6.5	4.77	118.52	112.50	118.86	140.33	88,41	109,19
Ireland (17)	161.18	+22.3	152.93	155.39	+25.9	2.85	159,46	151.35	154.74	166.69	125.00	133,43
Italy (97)	91.97	+8.0	87,26	91.37	+ 10.0	2.50	91.14	86.51	91.01	96.73	.74.97	86.36
Japan (455)	190.26	-0.6	180.53	172.52	+ 14.0	0.47	187.51	177.98	170.98	200.11	164.22	190.64
Malaysia (36)	202.54	+41.1	192.18	210.93	+40.9	2.52	200.97	190.75	209.52	209.22	143.35	142.07
Mexico (13)	287.89	+77.9	273,17	832.56	+ 105.7	0.62	287.89	273.26	832.56	326,61	153.32	180.19
Netherland (43)	129.32	+ 15.0	122.70	120.20	+ 17.0	4.42	128.10	121.59	119.79	131.72	110.63	110.27
New Zealand (18)	74.94	+ 10.9	71.11	67.71	+ 18.8	5.28	75.42	71.59	68.16	88.18	62.64	71.91
Norway (24)	172.97	+24.5	164.13	161.17	+30.2	1,68	172.88	164.09	161.44	198.39	139.92	128.36
Singapore (26)	163.24	+30.5	154.89	146.95	+31.1	2.04	161.68	153.47	145.96	170.62	124.57	121,12
South Africa (60)	173.29	+48.3	164.43	150.02	+52.7	3.80	171,04	162.35	148.66	173.29	115.35	125.71
Spain (43)	156.76	+ 5.6	148.74	137.46	+7.9	3.81	154.87	146.99	138.45	169,75	143.14	153.77
Sweden (35)	161.98	+ 12.0	153.70	153.95	+ 17.4	2.23	161.95	153.72	154,04	188.94	138.45	135.28
Switzerland (64)	89.17	+ 14.2	84.61	89.28	+22.8	2.12	88.22	83.74	88.39	94.16	67.81	. 80.62
United Kingdom (305)	141.65	+ 4,7	134.41	134.41	÷ 21.2	4.57	141.48	134.29	134.29	158.41	133.2B	138.58
USA (546)	139.64	+ 23.4	132.50	139.64	+23.4	3.33	138.83	131.78	138.83	146.29	112.13	108.92
Europe (994)	126.61	+ 10,4	120.14	119,74	+ 19.1	3,51	125.68	119.27	119.21	132,95	112.63	115.61
Nordic (121)	166.89	+ 19,5	158.36	152.23	+23.5	1.87	166,25	157.80	152.12	178.38	137.95	130.67
Pacific Basin (668)	185.73	-0.3	176.23	168.42	+ 13.8	0.72	183.22	173.91	167.03	194.72	180.44	185.69
Euro - Pacific (1662)	162,16	+2.9	153.87	148.95	+ 15.3	1.61	160.28	152,13	147.90	166.98	141.56	157.64
North America (668)	140.10	+23.1	132.94	138.78	+22.9	3.32	139.30	132.22	138.00	146.66	112.79	109.55
Europe Ex. UK (689)	116.29	+ 14.5	110.34	110.68	+ 17.3	2.80	114.93	109.08	109.91	118.51	96.30	101.14
Pacific Ex. Japan (213)	131,40	+ 5.5	124.68	117.63	+ 10.3	4.90	131.73	125.03	118.09	140.05	111.93	126.51
World Ex. US (1857)	161.89	+3.7	153.61	148.41	+ 15.6	1.68	160.05	151,91	147.39	166.35	141.49	156.0 \$
World Ex. UK (2098)	154.01	+ 9.9	146.13	146.51	+ 17.7	1.99	152.42	144.67	145.47	156.04	136.98	137.96
World Ex. So. Al. (2343)	152.76	+ 9.3	144.95	145.33	+ 17.8	2.19	151,30	143.61	144.3B	155.92	136.67	138.08
World Ex. Japan (1948)	135.14	÷ 17.8	128.23	131.40	+21.2	3,46	134.32	127.49	130.76	140.43	114.51	112.65
The World Index (2403)	152.88	+9.5	145.07	145.36	+ 18.0	2.20	151.42	143.72	144.40	155.89	136.68	138.00

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US \$ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US \$ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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CONSTITUENT CHANGES: Deletion: TRT (France)(23/11/89). The restricted shares of Aker, Kreditkassen, Kvaerner, Nora Industrier and Orkia Borregard (all Norway) were replaced by Free shares Nov.24.

	AN UPI	IONS E	XCHAN	GE	
	Feb. 90	May 90	Apg. 90		
Series	Voi Last	Last Vol Last Vol Last Stock			
old C \$390 gld C \$400 lold C \$410 lold C \$420 lold C \$420 lold C \$430 lold C \$440 lold P \$400 lold P \$420	110 36.50 244 22 b 336 16 154 13 83 9 210 6.90 103 13.50	32 31 1 2450 b 23 1950 3 15 24 9.90	31 42 25 3 21 b 10 10.50	\$ 416.80 \$ 416.80 \$ 416.80 \$ 416.80 \$ 416.80 \$ 416.80 \$ 416.80	
	Dec. 89	Met. 90	Jan. 90		
ilverC 5550	<u> </u>	5 60	125 75	\$ 588	
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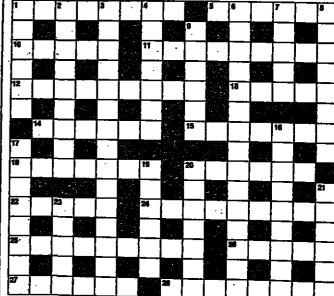
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CROSSWORD

No.7,100 Set by TANTALUS



ACROSS

1 Plan agenda (8)

5 Some wag has them astonished! (6)

10 Smell tobacco (5)

11 Queue they say to see these gardens? (9)

12 Summer in France with naval friend lasting for ever? (9)

13 Gunners heat with stick (5)

13 Gunners beat with stick (5)
14 Wife of Brutus organised a
trip round ocean (6)
15 About to slip and fall back

22 Aircraftman, one in race, is silent (5)
24 Loath to be about – weird cult approaches worker (9)
25 Determined to see new countles about 1st August

26 Ruin used by Normans ini-tially to entomb (5) 27 Midshipman's clothing? (6) 28 Gtd in difficulty due to parsimony (8)

DOWN
1 Inward member of the fam-2 Brew tea with US hobo seen

on river? (9)
3 Leaders of Troy had expectations (8.7)
4 I love a bell-shaped flower 6 It might make you cross

JOTTER PAD

8 Boy accepts a fast time is for the gifted (8)
9 One who is 25 (6)
16 Too soon to make tamer in perfect setting (9)
17 He's willing to examine revised rota (8)
19 Turn up to dry swimmer (6)
20 See slip converted into a cloak (7)
21 Overcharges and it hurts!
(6)

14 Wife of Brutus organised a trip round ocean (6)

15 About to slip and fall back (7)

18 Hurried into tent designed for competitor (7)

20 Darling carries wood for making valance (6)

21 Overcharges and it hurts!

(6)

23 Permission to go for a moulding (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 9.

20 Darling carries wood and making valance (6)

22 Aircraftman, one in race, is client (5)

Crossword in Careers Choice survey survey



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57RIA 1989	Price .	FRANCE (continued)	GERHANY (continued)	TTALY (continued)	SWEDEN Price	CANADA
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FINANCIAL TIMES



Managing matrices in all but name

ne of the main speakers at a Brunel University seminar on matrix seminar on matrix management last week was a senior executive from Harwell, one of the more commercially minded parts of the UK Atomic Energy Authority. His subject was the effectiveness of a widely admired matrix structure which Harwell has operated for 20 years, under which staff report in two directions at once: to a technical boss and to a business unit. The timing of his presentation was, to say the least, paradoxical. For, as he revealed a pologetically halfway through his remarks, Harwell's matrix is about to be abandoned. As part of a root-and-branch restructuring of the AEA into nine very market-orientated "businesses," Harwell itself is being dismembered. With it — theoretically — the whole matrix concept

- the whole matrix contept will disappear. So how does the AEA intend to manage the many crossbusiness linkages – technological and otherwise – which must continue to exist if there is to be any logic in the AEA's continued existence, other

must continue to exist if there is to be any logic in the AEA's continued existence, other than political convenience?

Further enquiry at its head-quarters elicits the admission that top management is currently wrestling with precisely this problem, and that it will probably end up with a number of matrix-like mechanisms— albeit rather different from the Harwell model, and not necessarily called a matrix.

Wariness

Given the complexity and bureaucracy which has bedevilled many matrix structures, in multinational companies at least as much as in the state sector, such wariness about the whole concept is understandable. In the appliances division of Electrolux, where a divisional/country matrix has had to be be developed to cope with the Swedish company's rapid multinational expansion, some managers treat the word almost like leprosy.

The same shyness is applied increasingly to matrices of the type where functional disci-

The same shyness is applied increasingly to matrices of the type where functional disciplines such as technology, rather than just divisions and countries, form one of the dimensions. When BP Exploration (known internally as BPX) announced a dramatic delayering and restructuring programme in the early autumn, it studiously avoided using the word "matrix" to describe any part of its newly

describe any part of its newly streamlined organisation.

Many of its technologists are indeed being transferred from the centre to BPX's various operating companies, in order to turn the latter into more complete business entities. Yet the BPX "technology centre" will retain what the company calls "functional parentage" of all technical staff.

What this means is not that BPX's matrix has been abandoned, but that the power halance within it has been shifted sharply away from central functions, and towards the operating companies.

Demolition

This sort of balance-shifting is disruptive at the best of times. But it is infinitely preferable, in many circumstances, to the outright demolition of an organisation structure which has served a company reasonably well, and which could continue to do so if only the people within it could

the people within it could learn to operate differently.

Changing the way existing structures are managed may be a lot less glamorous than a root-and-branch upheaval, but it can often be far more effective. Not, perhaps, in the case of impossibly complex and rigid matrices, like the one which Philips abandoned a few years ago. Nor in many medium-sized companies, which actually need to add an extra dimension of co-ordination as they expand and "go global."

But many established large

But many established large multinationals would do well to abandon their relentless search for "ideal" formal structures, and concentrate instead on creating a cohesive internal culture which allows the organisation to operate flexibly according to the particular requirements of time

In the words of Christopher
Bartlett and Sumantra
Ghoshal, authors of Managing
Across Borders, an illuminating new book on multinational management, the important thing is to "create a matrix in managers' minds."

Christopher Lorenz

That information clearly indicated some knowledge gleaned from the missing plan.

THE MONDAY INTERVIEW

Dilemma of a Hong Kong superman

Li Ka-shing, chairman of Cheung Kong Holdings, talks to John Elliott

he man who represents Hong Kong's best known rags-to-riches story faces a dilemma. Some 30 years after starting a business empire now worth well over \$3bn (£1.9hn), Mr Li Ka-shing has divided interests and loyalites. These arise from the impact of Hong Kong's return to Chinese sovereignty in 1997 on his property-to-telecommunications group, headed by Cheung Kong and Hutchison Whampoa.

and Hutchison Whampoa,

"If you are running a public company, it's not all your own personal money and you always need to consider what is best for the shareholders," says the 61-year-old, known to associates as K.S. Li. Shareholders and executive directors have urged him to follow other local companies and move his empire's domictle out of Hong Kong, "As of this moment I am not saying 'yes' to such a move. I don't like to see these sorts of things happening."

Mr Li knows that if he prophetics his graphy."

Mr Li knows that if he emphasises his empire's Hong Kong base, which accounts for 85-90 per cent of his public companies' assets, he will risk losing international investors who want a strong corporate strategy geared to 1997. So that percentage is coming down.

But any dramatic switch of domicile or investments would severally damage local and

domicile or investments would severely damage local and international business confidence because the companies, with capitalisation totalling HK\$72bn (£5.9bn), account for some 14 per cent of the local stock market. If Mr Li goes too heavily international, he will be accused of deserting the place which adopted him as a penniless immigrant from China in 1940. He would also suffer financially because, as one banker says: "Li is a beliwether and if he is seen to be abandoning Hong Kong he will bring down the whole pack of cards here — and his own wealth — with him."

That poses a delicate balanc-

That poses a delicate balancing act for the colony's most astute speculator who is admired for knowing instinctively how to play the property and stock markets, when to

invest and, perhaps more important, when to give up and pull out fast. "In business you must be solld, quiet, have a budget, and anything over the budget you should give up right away," he explains. "Since 1950 there has not been a year when I have lost a penny on any business."

a year when I have lost a penny on any business."

Mr Li is estimated to be worth some \$2bn when personal investments in property, hotels, banking and other sectors, started 20 years ago in

PERSONAL FILE
1928: Born in Chiu Chow,

southern China
1940: Emigrated to Hong
Kong
1950: Founded Cheung Kong,
making plastic flowers

and toys 1972: Took Cheung Kong public 1979: Took over Hutchison Whampoa

Canada, the US and elsewhere, are added to his 35 per cent public stake in Cheung Kong. A rather shy man, he runs his empire from a discreetly elegant 22nd-floor suite in a nondescript modern block called the China Building, located anonymously on one of the city's busiest street corners. That is in line with his life-style, which wins him respect. "I enjoy a very simple life. My living standards are no different compared with 1960. I still live in the same house and I don't like black tie dinners," he says — though he acknowledges with obvious feeling that "people are jealous."

The jealousy stems from his grip on key sectors of the local economy including over 50 per cent of the container port, as well as an electricity utility, plus one of the largest local land banks and big property developments. His biggest coup came in 1979 when, as a self-made Chinese entrepreneur, he ousted the British from the prized Hutchison Whampoa trading company. That coup was sponsored by

the Hongkong and Shanghai Bank where he is now a deputy

chairman.

Mr Li has no doubt what has made him successful so far and earned him his reputation for being a fair man to deal with. "The formula is so simple, but the work is hard," he says. "You do not spend much money on yourself, but you spend it on your friends. Be mean to yourself, but not to other people and build up a good reputation. Always keep your promise and automatically people will like to do business with you. If you are always fair with people — more than fair — business will come to you. More comes to me than I can handie."

Clearly there were big ambitions from the beginning, although Mr Li denies a colourful story that he started making plastic watch straps on a small rented balcony and slept at night under his machine. He insists his humble beginnings have been recounted too often, but then relaxes and talks enthusiastically about how he started making plastic flowers (he became one of the world's biggest producers) after he arrived in Hong Kong from Chiu Chow in the nearby Chinese province of Guangdong.

"At 14 I started working in the plastics industry and took care of my whole family. When

I was 17 I was sending money back to my mother — more than she needed. Then I became a salesman, then general manager. In 1950, at 22, I started my own business."

But does a 14-year-old or a 22-year-old ever dream of \$2bn-success? "I always had confidence when I started a small factory that sooner or later it would become much bigger. I built all this up step by step. When you are young you must work very hard. Others work eight hours, so you work 16.

eight hours, so you work 16.

"Then you steadily get higher and higher, and because you keep your reputation people trust you and you get on well with people. Study at night and learn new things, learn a little bit more than your competitor and adopt new



'Be mean to yourself, but not to other people'

technology — I did that in the plastics industry. But the money will not come to you if you just relax and sleep: and of course you need some luck." His advisers sometimes wish he would sleep more. He has a reputation for working all hours through the night if nec-

His advisers sometimes wish he would sleep more. He has a reputation for working all hours, through the night if necessary, when he is on a deal. That goes with his reputation for responding to offers within a day and of quickly getting out of projects that go wrong. "I like friendly deals and I like people to come to me with business. That is my philosophy and I have told my two boys — never take advantage of anyone." He says his minority shareholders and tenants benefit from that. I don't like to damage a company. So many takeovers are unfriendly, creating damage in a good company and I don't like to see that. I buy a few per cent as a base to see if it is a good opportunity, then increase if it is.

that. I buy a few per cent as a base to see if it is a good opportunity, then increase if it is. But if it is not good, I get out."

The most famous targets which faced this approach include Pearson (which owns the FT) in 1986, Hong Kong Land (part of the Keswick family's Jardine empire) last year, and Cable and Wireless of the UK in which Mr Li owns a 4.9 per cent longer term stake because of his group's interest

in telecommunications.

"I'll go anywhere in the world if there is a good rate of return, the country is stable, and there is proper legal protection."

tection."

He has tended to invest in assets, like property, which can be quickly traded. But he also has HK\$10bn tied up long-term in three terminals at Hong Kong's container port (out of a HK\$30bn-plus four-to-five year investment programme in the colony), and will bid for a fourth terminal next year.

will bid for a rounth terminal next year.

He usually avoids labour-intensive companies. "Normally in western countries, if you get into manufacturing with a lot of employees, you will have to deal with unions and I don't like to have to face up to trouble with unions."

His straightforward approach to business has however been upset by the June events in mainland China. People who know him say he was shattered by the Peking hardliners' crackdown, but he refuses to say so openly. "Basically I am Chinese and China is my own country and I love my country. I am hoping that people will learn lessons and I hope they will never repeat things again. I was sad to see those television pictures on

June 4."
Although he will not admit it, no one in Hong Kong has any doubt that these events added urgency to the group's decision to pull out of a local cable television bid that "went over budget" and, longer term, to reduce the proportion of its assets in the colony from the present 85 per cent-90 per cent to 70 per cent, or maybe even to 50 per cent. Mr Li resists discussing the figures and only says they "depend on the returns we find outside."

His takeover trail in Hong

Fis takeover trail in Hong Kong however has almost certainly ended. "Our investment will continue in Hong Kong but not takeovers of companies. The chances of that are not high. Our percentage in Hong Kong is already too high."

He insists, with qualifications, that the "potential of Hong Kong is still there." He is only "reasonably" optimistic on the economy and he specifies "the coming 5-10 years" as the period when the colony will remain the group's "main money making place." About post-1997 he says: "You cannot forecast because you do not know whether you will have good returns or not because investment in south-east Asia is also very good today."

Mr Li is not willing to agree that Hong Kong is unique. Asked if he would rather start again there or somewhere else, he says: "Many other countries have good opportunities. It is not only Hong Kong — you can see in Taiwan, Singapore, Malaysia and Indonesia a lot of Chinese also making very good money because it is the basic thing of Chinese to work very hard."

of future plans Mr Li says:
"I hope before 1997 I can be retired, that is very possible."
He has two sons - Victor and Richard - both in their 20s and both with Canadian nationality. That is where a lot of Mr Li's personal wealth is invested - including a controversial \$1.7bn housing, offices and services development on Vancouver's 204-acre Expo 1986

site approved last week.

He says he is not yet sure about his succession and seems to suggest professional managers might take over for a time.

"The professional management teams are very happy and the sons still need time to learn. I don't know yet. But if you have a good team of management working together for so many years and you trust each other, it doesn't mean it has to be your sons."

Private law and the public's right to know

r Justice Hoffman began his judgment last Wednesday in Re Goodwin in a typically bland, judicial manner: "This is a motion for an order requiring a journalist to disclose the source of his information. The courts rarely make such orders because there is a well-established public interest in the confidentiality of journalists' sources." One might think that that was a prelude to the upholding of the journalist's duty to protect the confidential information he had received.

The case proved, however, to be one of those "rare" instances, because the judge held that the disclosure of the information was necessary "in the interests of justice." Re Goodwin strikes at the heart of press freedom and is thus destined to draw battle lines between Section 10 of the Contempt of Court Act, 1981 and Article 10 of the European Convention on Human Rights. Does the legal remedy for enforcing a private commercial interest have a higher social value than the protection of sources by journalists?

First, the facts. A privately owned company was engaging in a re-structuring of its financial affairs. It needed to raise additional working capital and was negotiating for a substantial bank loan. It employed well known accountants to prepare a corporate finance plan. Eight "strictly confidential" copies of a draft plan were distributed. The accountants' copy went missing and the next day Mr Goodwin, a trainee journalist on The Engineer, received information from an unidentified source. The circumstances pointed to the source having had access to the plan. Mr Goodwin retrieved some information about the company from newspaper cuttings and then checked his information with an employee of the company. That information clearly indi-



JUSTINIAN

Alarmed by the prospect of publication of its plan in embryo, before the new financing was in place, which might cause severe damage to confidence in the company among its customers and suppliers, the company hurried off to the High Court. The publishers were stopped for the time being from publishing. But the company feared other publicity might result from the source continuing his "whistle blowing" activities.

The public interest in non-disclosure of sources of information is subject to four heads of interest, of which "the inter-

The public interest in non-disclosure of sources of information is subject to four heads of interest, of which "the interests of justice" is one. The law is that the court may not order disclosure unless it is satisfied that disclosure is necessary—not merely justified or expedient. These interests are said by the English courts, which was echoed by Mr Justice Hoffman, to be "superior" interests, or to "take priority" over the public interest in non disclosure. It is this judicial interpretation of Section 10 of the 1981 Act that

is open to debate.

Mr Justice Hoffman concluded that on the evidence there was a strong case for saying that the company had suffered a serious wrong. Furthermore the company would suffer serious commercial damage from the publication of the information in the file during the immediate future. The judge accepted that the journalist's source might have received the information second hand.

The main thrust of the journalist's defence was that the company could not reasonably expect to have the assistence of a journalist to investigate and deal with a leak in its security arrangements. This was not a case of national security. The judge rejected this argument. Legal proceedings must at least be contemplated for the interests of justice to arise, however. The availability of a legal remedy carries with it the citizen's right of unimpeded access to the courts. The expression "justice" is used in the technical sense of the administration of justice in the course of legal proceedings in a court of law. The company was entitled as part of its legal action to get disclosure of the source of the information.

There is an essential flaw in the reasoning that leads to the conclusion that disclosure was necessary in the interests of justice. The reasoning tests the balance of interests — confidentiality in commercial activity and the journalist's duty to protect the sources of his information — in private law terms: citizen v citizen. However, the freedom of expression in Article 10 of the European Convention on Human Rights is constitutionally guaranteed and inures to the benefit of the public and not in the journalist in his own right. It is thus a public law right

public law right.

When the application was heard on Friday for Mr Goodwin's committal to prison for contempt in refusing to hand over the notes which could identify his source, the judge rejected the idea that the case involved a conflict between the company's private commercial interests and the public inter-

est in the freedom of the press.

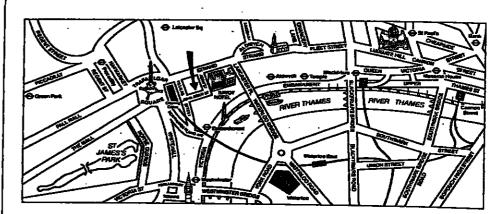
"The conflict is between two
public interests — the free
availability of information and
the fair administration of justice," he said. Not so. The first
is the public's right; the second
is only the public method by
which an individual's private
rights can be enforced.

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SECTION III **FINANCIAL TIMES**



Strikes, rising wages, a higher won and US trade pressure have brought a touch of cold reality to the

land of the economic miracle. Stefan Wagstyl reports on South

Korea's move towards a more democratic, more outward-looking and more market-oriented economy

Turmoil of transition

SOUTH Korea is struggling to come to terms with its own

After three years of unprecedented expansion, a sharp slowdown in exports has plunged Koreans into a deep bout of anxiety. Businessmen, who usually like to compare their country to Japan, instead talk darkly about Argentina, as an example of a once-rich country which squandered its

The main concern is that over the past three years, ris-ing wages and the appreciation of the won, have undermined Korea's export competitive-ness. Strikes have sullied Korea's reputation as a land of

industrial harmony.

But the truth is that the outlook is not as bad as some Koreans believe. The causes of the gloom are the deeply unsettl-ing changes which Korea is undergoing as it moves from authoritarian to democratic government, from a state-led economic system to one in which market forces are to be given greater play. Foreign relations are at a sensitive stage as the country tries gingerly to establish contacts with North Korea.

Also, Korea's trading partners, especially the US, are

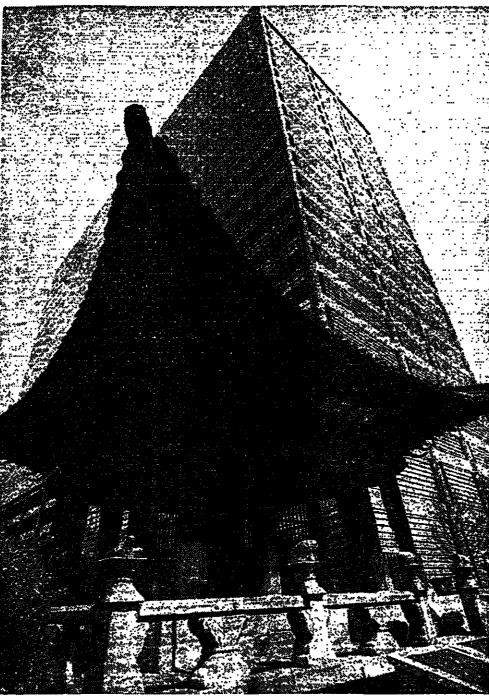
insisting that the country can no longer enjoy access to export markets without dis-mantling the barriers which have shielded Korean industry for nearly 30 years of high-speed growth.

However, as well as bringing difficulties, these changes are creating opportunities for business: in investment at home and abroad, in access to international capital markets, in a home market of 43m increas-

ingly rich people.

The International Monetary Fund in a recent report said: "The present difficulties should not be allowed to overshadow the impressive expansion, unequalled elsewhere in the world, that has been achieved by Korea's dynamic economy since 1985. As a result of its accomplishments the Korean economy is in a strong that lie ahead."

The Korean conglomerates, or chaebol, led by Samsung with sales last year of \$31bn, Hyundai (\$28bn), Lucky-Gold-star (\$23bn) and Daewoo (\$15bn) should be best placed to take advantage, given their dominance. They are begin-ning to specialise more in key industries where they think they have an international



South Korean Finance & Industry

competitive edge — notably Samsung in electronics. The government also wants to encourage small and mediun-sized companies to be more outward-looking. For foreign businesses too the upheavals could bring opportunities. Kor-

eans are putting a special

emphasis on building contacts with Europe — to try to bal-ance their relatively strong ties with the US and Japan. Korean bankers and businessmen are passing through Europe at the same time as President Roh Tae Woo, who is visiting Europe this week.

Traditional preferences for things Korean will not disap-pear overnight, any more than similar tendencies have died in Japan. Even though its grip will weaken, the government will continue to guide the economy, through its influence on

A commitment to economic liberalisation among some newly-appointed government officials, such as Mr Han Seung Soo, the trade and industry minister, and Mr Cho Soon, the deputy prime minister. ter, will not compensate entirely for the instinctive bias of old hands towards the inter-ests of the *chaebol*: Korea will remain a tough place for for-eigners to do business," says a

estern trade official. Also, exports are bound to remain a vital source of growth, even if a declining one in importance. Exports totalling \$61bn last year accounted for a full 36 per cent of Korean gross national product - and they have to keep expanding if only to cover Korea's growing desire for imports.

However, Korea has reached the point at which it has to expose companies to international competition, partly because of US pressure and partly because of self-interest - it wants access to cheap abour, technology and markets. Korea will, moreover, have to move faster than Japan because the West is much more aware of the might of Asian competition than when Japan embarked on its internationalisation some 20 years ago.

years ago.
"Our national industries have to become international," says Mr K S Lee, executive vice-president of Sunkyong, a chemicals-based conglomerate. That will be a fundamental

trend from now on."
Rising labour costs provide the main impetus for overseas investment, followed closely by trade frictions. Businessmen believe that Korea may never again be a low-wage economy, following the 100 per cent increase in costs in US dollar terms since 1986. So labour-intensive industries are moving production overseas, particularly to low-wage Asian coun-

As for developed countries, Koreans intend to follow the same route as the Japanese making themselves at home in export markets: "We must become an insider in target markets," says Mr Lee Chong Suk, an executive director of

Lucky-Goldstar.
From an accumulated total of \$476m at the end of 1985, overseas investment reached \$1.1bn by the end of last year. Samsung, with the most devel-oped foreign investment programme, currently has 5 per cent of its electronics produc-tion abroad. In three years' time it plans for between 25

per cent and 30 per cent. Groups, which had scarcely heard of corporate finance five years ago, are considering mergers and acquisitions. Sammi Steel, a specialist steel maker, recently bought three

units of Rio Algom, the Canadian resources group, for \$210m, in the first significant Korean overseas corporate acquisition. Given rising labour costs, salvation at home for Korea lies in continuing investment in capital-intensive industries.

There is no shortage of schemes, only of capital and technology. There are no less than five competing plans for \$1bn-plus petrochemical com-

Korean companies are seeking foreign partners more keenly than in the past for these immense projects. The Government has eased regulations governing inward investment. Foreign investment in Korea is expected to increase from the current accumulated total of \$6.8bn, albeit more modestly than outward invest-

Inward investment has long been regarded as a double-edged sword. Koreans have always desired technology but they have feared becoming too dependent on foreign know-ledge. For their part, foreigners have been afraid of divulging secrets to a potential competitor: "Toshiba knows that our ultimate goal is to beat them," says Mr Suh Jung Sun, a senior executive of the Daewoo group, which includes cars, electronics and financial ser-

However, both sides have started looking slightly more favourably on partnerships. Foreign companies which once regarded Korea as an export base are now interested in its fast-growing domestic market. Koreans are more aware than ever of their technological

Each advance by a Korean company tends to expose gaps elsewhere: "We have grown so fast we could not accumulate sik, a senior official of the Eco-nomic Planning Board. Between 20 per cent and 30 per cent of the value of a Koreanmade video recorder is imported from Japan. The same is the case for a Korean

The main criterion for liberalising inward investment is usefulness to Korea. This is particularly clear in financial markets. Korea is proud of its plan to open its stock market to foreigners in 1992. But since Korea has no particular need of foreign shareholders, the amounts of stock foreigners can buy even after 1992 will be tightly restricted. The Korean financial system,

especially banking, remains under the control of the Ministry of Finance and the central bank. So the liveliest developments involving Korean com-panies are taking place in international financial mar-

CONTENTS

Reform of the financial or

Politics/Labou

In Korea Oversess interest in the Profile: Barings

Korean investment at Hyundai in Canada Samsung in the UK

Koroan financial activity abroa Profiles: Lotte World; Valeo-Pyeong Hwa

Cover picture: One of Seoul's best known shrines, the Kolong memorial, contrasts starkly with one of the city's most dazzling skyscrapers

Khozem Merchant

kets, especially innovative

issues of Europaper. Nowhere does Korea boast of its commitment to internationalisation more than in trade not surprisingly, given US criticism. Korea this year nar-rowly escaped being named on Washington's list of nations accused of unfair trading.

under the terms of the "Super 301" clause of US trade law. US officials concede that Korea is opening markets, albeit cautiously. The Korean list of banned items, as defined under the General Agreement on Tarlifs and Trade (Gatt), has fallen from 40 per cent to about I per cent. The govern-ment has cut the average level of duty on imports from 19 per cent last year to 12 per cent. It intends to reduce this to 7.6 per

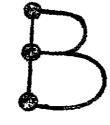
cent, the average for developed countries, by 1993. Nevertheless, the end of formal barriers often reveals hid-den ones. Since the tobacco market was opened last year, the importers' share of the Korean market has reached 4 per cent. Starting from the same point in Taiwan they have captured between 16 per cent and 17 per cent of the market. The importers blame various restrictive practices by the Korean state tobacco company - including bullying shopkeepers to tear down

advertisements. There is a danger that change is coming so fast that it might overwhelm Korea. Its move to democracy is so recent, its economy is in many ways so immature. But the dif-ficulties of the present are dwarfed by those which Korea has already overcome. Like Japan and unlike Argentina. the beting is that Korea will complete the long journey to





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PETICOS



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ROAD CONSTRUCTION



SHIPBUILDING





TELECOMMUNICATIONS & TOOLS URANIUM DEVELOPMENT



VALVES



WORLDWIDE NETWORK



X-CAVATORS



Yarn & Yachts

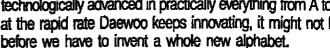


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Some of the most respected names in the business world have formed partnerships with Daewoo. And no wonder. Daewoo is highly innovative, quality oriented and technologically advanced in practically everything from A to Z. And at the rapid rate Daewoo keeps innovating, it might not be long



Increasingly fraught growing up pains

IT HAS undoubtedly been difficult for the dynamic South Koreans to adjust to the reality of having a more grown-up, mature economy. All year long there have been outbursts of panic and prophecies of doom predicting the end of the coun-

iry's economic miracle.

After three years of growth at 12 per cent and last year's \$14bn, the prospects this year

of 6.5 per cent growth and a current account surplus of \$50n have seemed like failure. But Seoul is not so much headed for failure as undergoing an economic restructuring. The results of the change will determine its future success in the global market and its status as a leading industrialised country in the next decade. The restructuring affects

sectors of the economy. On the macro side, South Korea has been forced to react to strong trade pressures, especially from the US.

Companies are moving from the strongly export-led engine of growth that has propelled the economy to concentration on a balance between the domestic and international

ing to move their export depen-dence away from US markets to a balance between North America, Asia and Europe, and to reduce their import dependence for components on

Companies also want to upgrade their technology, move production of labour intensive products abroad to lower wage countries, and sort out a working relationship

between management and

In addition, they are facing competition from imports in the domestic market for the first time, as the government lowers tariffs and lifts bans on restricted items.

On the micro side, the Government is planning to intro-duce a full scale modern tax n, so as to curb speculative activities in property and the stock market. It is expanding welfare and housing spending, and is trying to correct regional wealth imbalances which have arisen during the rapid development of the past. The first ever budget featuring public spending in the history of the country was introduced:

It is lifting controls on industry under which government planners "picked winners" and allocated resources to help them in the drive to industri-

The result of this widespread restructuring has so far been patchy. Some companies have been quick to grab opportuni-ties offered at home, neglecting their exports in the more competitive environment caused by the 25 per cent appreciation of the currency over the past

Others have invested strongly in speculative assets rather than manufacturing facilities, pushing down the rate of growth but creating inflationary pressure. Specula-tive activity is expected to ease when a government reform bill takes effect after this year.

Many companies are still working out strategies of inter-nationalisation as South Korea looks to become an advanced

Expected to act in a more independent fashion rather than rely on government guidance, as in the past, they may still not be certain of their

Most government economists believe that this year's slowdown in growth was necessary to control inflationary pressures. The inflow of funds from the current account combined with wage rises averaging 20 per cent a year over the past three years could have caused a wage price spiral if it had been not checked, they believe.

The central bank has there-fore exercised strict control on the money supply this year, resulting in a singuish stock market. It has also kept interest rates high and strictly rationed lending, especially for

speculative purposes.

After strong pressure from industrialists late this year, the Government has lifted some controls in an effort to encourage companies to expand their export effort. Exports grew 4

export effort. Exports grew 4 per cent in 1989 compared with import growth of 19 per cent, mainly in capital goods.

The inflationary pressure is expected to result in a rise in the consumer price index of between 6 per cent and 7 per cent by the year end, a rate which the Government hopes to reduce pert year.

To reduce next year.

A current account surplus of s6hn is now forecast, with a similar out-turn expected next similar out-turn expected that year. The won has depreciated slightly against the US dollar from its high of 670, but no significant further fall is expected, and US officials are reported to be happy with South Korea's progress on

trade issues.

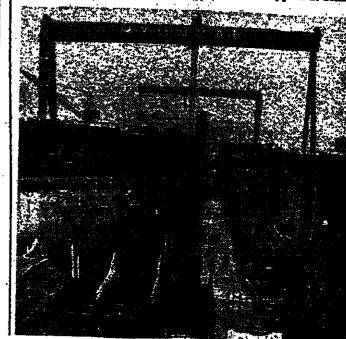
The main priorities for the Government next year will be the introduction of a workable system of labour relations to avoid the damaging disputes of the past three years, along with the continued restructuring and modernisation of the fiscal system. The rebalancing of the economy between and the introduction of a more competitive approach by com-panies, both internally and externally, will also be empha-

Officials believe South Korea will soon start to experience the advantages of a more dem-ocratic and accountable ecoocratic and accountants sec-nomic system, side by side with political change. Much of the pent-up anger and volatil-ity which has plagued business activity, especially industrial relations, will then begin to moderate, they hope.

Expectations are also likely to become more realistic. The day may not be far off when South Koreans realise that the achievement of 6.5 per cent growth would be regarded by almost any advanced country as an excellent performance.

South Korea: economic growth indicators (%) 128 122 18.4 18.3 13.0 11.5 12.1 11.2 81 7.8 6.9 79 102



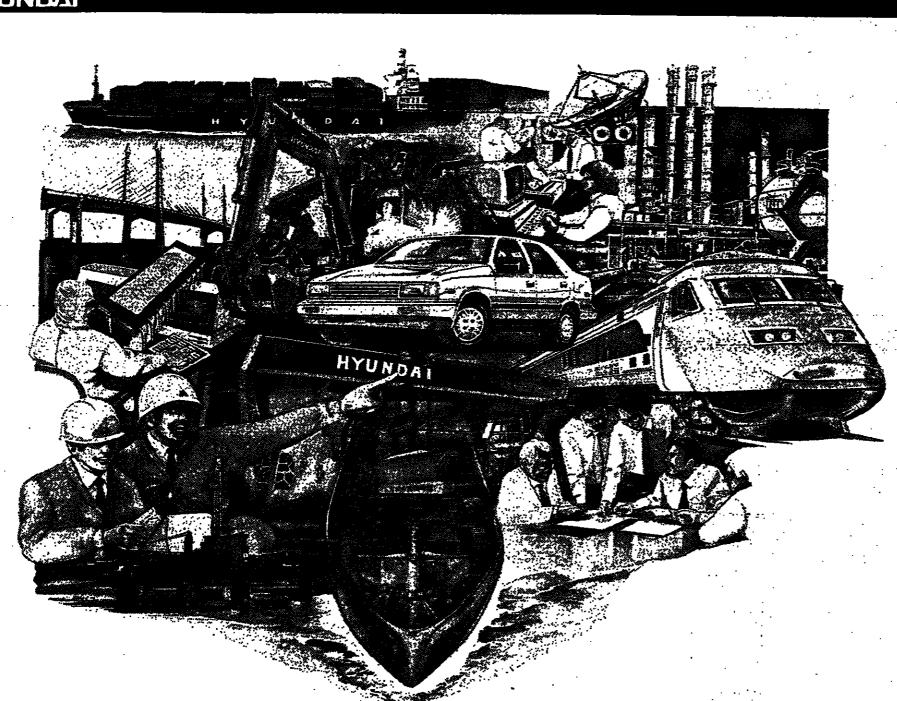


both the macro and the micro They are simultaneously try-Comparative economic indicators 1988 GNP current prices (\$bn) apita GNP at current prices (\$'000) 7.0 8.1 2.5 Average annual rate of change of GNP deflater 1979-88 (%) 9.0 Average annual rate of change of consumer price index 1979-88 (%) 9.3 5.0 Annual average rate of change of money supply (M2) 1979-88 (%) Unemployment rate (%) Current balance as (%) of GNP Share on investment in GNP (%) 23.3 30.7 Domestic savings rate (%) 35.3 13.8 Population (m) 243.8 Average annual growth of

HYUNDAI

Many South Korean companies are looking to move produ

of labour intensive products abroad to lower wage countries



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K.P.O. Box 92 Seoul, Korea TLX: K23111/5 FAX: (02) 743-8963 their subsidiaries to spread ownership The securities companies have followed banks in establishing overseas offices -

principally to manage and underwrite

issues of Korean companies on the Euro-markets. They complain that the Govern-

ment has not allowed the market to grow

freely. About a dozen issues by Korean

companies were expected this year after five in 1988. However, there has only been one so far, with two more planned by the

end of the year. The government blocked

other issues out of concern about the growth of the domestic money supply (the

proceeds of overseas issues often find their

way back into Korea, in spite of foreign

Nevertheless, the Government discreetly

encourages Korean financial companies to

get involved oversess in complex transac-tions. Like the Japanese authorities, the

Koreans want to see their companies learn

techniques abroad before allowing them to

With the help of foreign securities com-panies, Korean houses are handling

increasingly sophisticated deals, for exam-ple, the single Euromarket issue launched

so far this year was a \$50m bond with warrants for Sammi Steel, a specialist steel maker, co-managed by Merrill Lynch,

the US broker, and Dongsuh. Sammi is using the money for a \$210m acquisition of

three subsidiaries of Rio Algom, the Cana-dian mining and metals group, in the first significant international acquisition by a

Banks too are expanding corporate

finance operations. The Korea Develop-ment Bank, the state-owned long-term

redit bank, the state-owned international investment banking operation. It has \$21.5bm in assets. Mr Chung Yung Euy, the governor, says he wants to model the bank on the Industrial Bank of Japan, Japan's

premier long-term credit bank.
Such comparisons are bold, considering

that the privatisation of the KDB is not

even on the agenda. However, the authori-ties are aware that true competition can

only flourish if Korean institutions are

ready to stand on their own two feet.

The leading commercial banks, which

vere mostly privatised in the early 1980s,

are being encouraged to raise capital to

meet capital adequacy standards set by

the Bank for International Settlements

According to the central bank, seven out

of Korea's 17 banks failed to meet BIS standards. Most of the seven have high

exposure to bad loans they were prompted

to make to heavy industry by the govern-ment during the 1970s. The central bank is

pressing banks to write these loans off

over time against earnings. It believes Korean banks can meet BIS standards by

the date they come fully into effect in 1992. Korean companies will be exposed to the full blast of competition only when they

can stand it. And even then, as independent companies, they will be expected to listen closely to the authorities. Just as in

exchange controls).

Korean group.

Stefan Wagstyl on the need for reform of the financial system

Seoul's old habits die hard

KOREAN finance has an impressively first refusal over the client's banking busi-modern facade. Gleaming skyscrapers in ness. In return, the banks are expected to seoul. Bankers and brokers with offices in London and New York. Eurobond issues, Even a \$210m international acquisition

But behind this screen, there is a ramshackle mixture of old and new elements, unevenly fitted together in ways which leave great unfilled gaps in the needs of many Koreans. In some parts of the countryside, there are no banks, small and medium-sized businesses often find it impossible to borrow, and money markets are so undeveloped that the cost of bor-rowing is anything from 11 per cent to

more than 50 per cent.

The core of the system are banks, which were established in order to channel funds to industry at the state's behest, and which are still tightly controlled by the authorities. Around them have grown other kinds of financial company including short-term finance companies, securities companies, and life assurers which are mostly expanding rapidly. The banks' share of the financial community's assets has fallen from about 75 per cent 10

years ago to about 50 per cent.

The Government is publicly committed to reducing bureaucratic constraints and allow free market forces greater play and to respond to US pressure to allow foreign companies more access to Korean markets. But as in Japan, the instinct of the officials at the Ministry of Finance and the central bank is to keep control for as long as possible. So the form of change is often ter than its substance.

Some high-level officials who argue that the government-led financial system which has served Korea well during the past 30 years of high-speed growth is too inflexible to cope with the needs of a

sophisticated economy.
But ranged against the reformists are the conservatives at the heart of the finan-cial system - at the ministry, the central bank and at commercial banks, some of which are privatised and others not.

These people often believe that, what-ever the theoretical advantages of liberalisation, in practice bureaucratically-controlled banking works quite well. A western trade official says: The financial system is more in need of reform than anything else in Korea. But it's hard to tell the officials they're wrong. They've done a better job of managing their economy than Mr Bush or Mrs Thatcher." An example of the limitations of Korean

financial reform has been played out over the past year in interest rate deregulation. Bank lending rates were liberalised last December - meaning that banks were allowed to set lending rates as they chose, instead of all lending at the same central

However, in practice the leading banks set the same rates. They do not need to compete because under Korean regulations commercial companies have to nominate a prime bank, to which they pledge assets, and which then has the right of

-

ean companies (typically 60 per cent of total assets) and support customers through difficult times. The cartel of the Korean banking system is very effective," says a foreign banker is Seoul.

Nevertheless, even if the pace of change is slower than in appears, the direction of change is firmly towards increasing com-

In the past year, the Government has opproved six new life insurance compa ies, all foreign-affiliated, to compete with the 16 existing ones. It has backed increases from seven to 18 in leasing companies and from three to eight in invest-ment trusts. Three new banks have been approved taking the total to 20, with three more planned for next year.

Mr Kim Kun, the governor of the Bank of Korea, the central bank, says the purpose is to promote competition and bring financial services to provincial centres,

The Government is publicly committed to reforming the system in order to reduce bureaucratic constraints and allow free market forces greater play

since many of the new institutions will be

The central bank has also supervised an important reform of the money market, by unifying two separate illiquid and inefficient call markets, and allowing various financial companies, including foreign banks, to use it. The deregulation of interest rates on deposits is on the agenda,

possibly starting next year.
For the future, President Roh Tae Woo has endorsed a liberalisation plan which set a date of 1992 for the reform which is highest on the wish-list of foreign compa-- the opening of the securities market to overseas investors by 1992. There will be tight limits set on the proportion of

The convertibility of the won, indispens able for freedom of capital, is to move ahead in stages. This year, banks were allowed to set their own rates for tele-graphic transfers (within a narrow range), next year the market average rate system as used in Taiwan is to be adopted for setting exchange rates, and at an unspecified date after 1992 the won will be made

None of this is happening fast enough for the securities companies, which have n the Korean stock market exceed Hong Kong in total capitalisation in the past year. About 125 companies have been listed this year, taking the total to 680. Listings are expected to continue at the same rate as the conglomerates are being pressed by the government to spin off

rushing to take advantage of market opening measures and tariff reductions, could lately be forgiven for wondering exactly what kind of country they are dealing with. In the past few months a per-

fectly respectable grapefruit market, which had grown from nothing to several million dollars worth of imports in a few months, was virtually destroyed overnight.

A fast growing imported film business launched by an American company was subjected to a barrage of intimidation, including the release of snakes in cinemas to deter movie-goers and cinema owners.

A scandal over the use of imported ingredients which might be harmful to health in locally manufactured noodles created an overnight boycott of one of the country's staple

And a campaign was launched against excessive consumption in the South Korean press which seemed to focus largely on the kinds of high priced, high margin goods that exporters have found highly profitable to sell in

Asia, especially Japan.
Just what was going on,
many importers wondered, thinking darkly that they were probably the victims of another stab in the back from

local vested interests.

Many foreign businessmen in South Korea believe that local companies, whether government-backed or indepen dent, are determined to prevent competition in a don market which has been heavily protected for decades.

However, the reality of the situation may be more com-plex. For while there are undoubtedly some political and unethical business aspects to recent events, foreign compa-nies' business judgment may be better served by watching social change and the volatility of public opinion.

A wave of political and social discontent has recently broken throughout South Korea as the country's dynamic material success coles with traditional values.

Public protest has concen-trated on the conspicuous consumption of luxury goods by the rich, and concern has grown about the spread of corruption. The underlying reason for the complaints is the uneven distribution of the nation's new wealth.

A recent poll showed that a majority of the public felt that the distribution of income in South Korea was unfair, and that it was wrong for a small minority to indulge in excesIMPORT LIBERALISATION

The growth of consumer power



Taste of things to come: South Korean houses at the import of farm products, including US grapefruits

sive consumption of expensive hixuries denied to the major-

The debate about consump-tion has focused on imported goods, especially foreign cars, drinks, and consumer items such as TV sets and other home appliances and designer

It has particular relevance for exporters trying to break into a market which until now has been tightly restricted to domestic manufacturers.

Newspapers have chronicled the increasing rise of imports of very expensive products such as chandeliers, marble bathroom fittings, furs and jewellery, along with high spending at entertainment places, where a night out can cost several hundred dollars per person.

But government officials say that the discontent which has been fanned by the media is not an anti-import campaign.
The policy to open South
Korea's markets is not in jeopardy, they say, pointing to high
profit margins on luxuries as the cause of the trouble

Newspapers have published analyses of the profit margins, often as high as 200 per cent on imported items, noting that the cost of imported products in South Korea is often quadruple the cost in the home country.

he taxed on profits. The Government also seems to be approaching the question of high profits. The issue has been underlined by the release

Big business groups, which own the trading companies bringing in imported goods,

have attracted strong criticism, not only for the high profits

charged on items which are reasonably priced abroad. They

are also under attack for indulging in speculative invest-

ment in property which drives

up housing costs and for trying to dominate all business fields

by squeezing out smaller com-

has been a concentration of wealth in a small upper eche-

lon, which clashes with the

sm so common in north-east

The Confucian tradition

emphasises respect for hierar-chical authority, but it also stresses the duty of rulers to

treat people fairly. Scholarly distinction and frugal living are venerated. Materialism,

until very recently, was practi-cally unknown in Confucian

societies and being rich was

not regarded as deserving of

observed the development of

the wealth gap in a more

extreme form in neighbouring Japan, where speculators and

large companies have scooped up financial assets such as land and stocks, putting home

Koreans have

South

Confucian value of egalitarian

The result of this activity

recently of figures showing margins of up to 200 per cent on "luxuries" — which in South Korea may include such relatively commonplace items as a meion selling for £10, or a bottle of Scotch whisky for £33. Ministers say that imports of foreign products are being allowed so as to introduce com-petition into the domestic market to upgrade quality, as well as in response to foreign trade pressure. They are critical of companies who are using open market opportunities simply as a way of making what they see as exorbitant profits.

ownership out of the reach of

They are also starting to

notice the wide disparity

between prices for goods over-seas and at home, having being

allowed to make foreign trips for the first time this year.

South Korea may, however,

have the best chance of the

north-east Asian countries of

tackling the wealth gap prob-

The Government has already

announced that it will intro-

duce a tax and land reform

programme, including a mod-ernised stock market system

using real names in transac-

tions, so that speculators can

many salary earners.

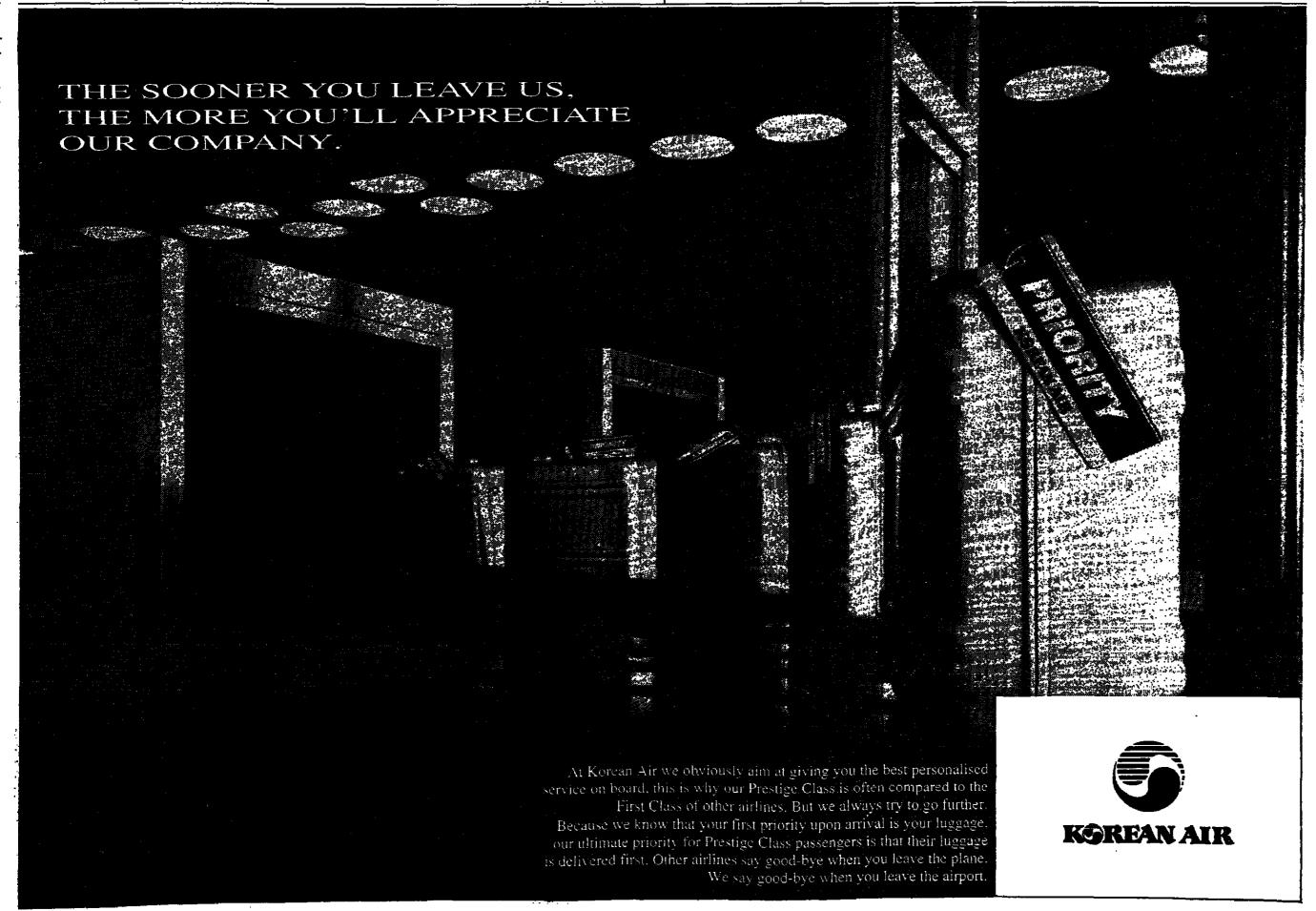
The growing consumer movement in South Korea has also shown its muscle by forcing department stores to stop making false claims on prices during bargain sales, and by making public complaints about food testing standards.

But for exporters, the market remains difficult to judge. Like most developing countries in Asia, many South Korean consumers with money to spend feel that the more expensive, the better the quality, and therefore the more desirable the product.

Any manufacturer or distributor reducing product prices may therefore sacrifice profits in the short term - though in the long term he may gather public loyalty and consumer support for his product and his

sales policy.
In a Confucian-style society
such as South Korea, it is becoming clear that getting rich and spending money is not necessarily always regarded as profits and long-term market share, timing will, as usual, probably be the essence of suc-

Maggle Ford



Unions stake their claims

IN THE next six months South Korea will face two substantial challenges to its desire to become an advanced industrial country with a democratic

political system. The first is the need to come to terms with its past, and especially to eradicate the still festering legacy of the previous government led by ex-President Chun Doo Hwan.

The second is the need to set up a modern relationship between management and workers to end the destructive strikes and high wage rises of the past few years, which have eroded international competi-

Serious obstacles lie in the way of a resolution to the twin problems, but confidence is now beginning to grow in the country's ability to find speedy

Negotiations have now been going on for two years between ruling and opposition parties over a settlement of the misdeeds of the former government. A year ago former President Chun apologised to the public for his actions, returned substantial funds to the state and departed for internal exile in a remote Buddhist monas-

The opposition has, hower stuck by its demands that he testify to the National Assembly about his actions. Several other key figures in his regime are also required to resign

from their present positions.

Victims of the 1980 military killings in the city of Kwangju must also be compensated and their reputations restored, in order for a settlement to be agreed. Ruling party officials now seem close to negotiating terms with the leaders of the previous government, observers believe, and a peaceful solution is expected to be found within the next few

The Government of President Roh tae Woo will then be in a far better position to push ahead with its policies, which have often attracted strong opposition from hardliners associated with President

One such policy concerns the future of the labour movement, which sprang up three years ago in the wake of the 1987 democracy demonstrations. Workers in South Korea reacted strongly to democrati-



President Roh tae Woo

sation after years of suppres don and the country has been through three years of serious struggle as workers sought their share of the country's

prosperity. Wage rises have averaged 20 per cent per year over the period, working hours have been reduced from 54 hours a week, the longest in the world,

to 48, and unions have been

among workers in competing Wages as a percentage of costs in South Korea still remain at between 15 per cent

and 20 per cent, so that in high value added industries such as motor cars, the country remains competitive, other factors being equal. Managers say that stoppages and production delays due to disputes at suppliers are causing the most

The Government has remained neutral in many disputes but has allowed police to intervene in others, creating substantial distrust. It has made it clear that it wants a unified trade union structure, led by the Federation of Korean Trade Unions, and plans to crack down on a grouping of democratic trade unions formed earlier this year.

The FKTU, associated by many workers with the former regime, is undergoing a proess of internal reform and seems likely to emerge eventually as a moderate but democratic organisation.

Efforts to set up a central arbitration system to resolve disputes have so far failed

The Government must establish an effective relationship between management and workers to end the destructive strikes and high wage rises of the past few years, which have eroded international competitiveness

recognised in most companies. with the exception of the Sam-sung group, South Korea's

But the change from an authoritarian to a democratic industrial structure has been plagued with wildcat strikes as democratic union leaders tried to oust "yellow" or pro-com-pany leaders appointed in the

The internecine battles have led to continuous friction. under which companies have found that some union leaders cannot guarantee their members support for a negotiated

Due to the system of company unions, which does not allow cross-sector pay deals, further disputes have occurred where richer companies offered higher rises, creating envy

because of the lack of trust between workers and manage-ment. Union leaders complain that they are unable to get reliable figures of the company's performance on which to base their claims.

They accuse management of using violent thugs to terrorise workers, of withholding pay, breaking agreements and of conspiring with police to break up unions. Demanding higher and higher pay rises is the only way to force companies to treat staff decently, they

Companies in turn complain that trade union leaders are radical Communists bent on destroying society and have attempted to eack or transfer workers suspected of being activists. Many workers criticise the "19th century" attitude of industrialists. Some industrialists, unions leaders say, believe that workers should be grateful to have a job at all.

The Government has moved to improve the macro-economic situation for workers by introducing welfare spending in the budget, reorganising the fiscal system and cracking down on speculation by companies in property, which was driving up home prices beyond the reach of workers.

It has also warned both sides that it will not tolerate violence and that both workers and management should real ise they are in the same boat. Mr Kim Woo Chong, owner of the Daewoo group, whose shipyard was balled out by the Government this year, may be

moving towards acceptance of such a point of view. Last year, after serious vio-lent labour strife at the yard, he acceded eventually to demands from the trade ministry that he personally sort out industrial relations as a condi-tion of financial aid for the

Mr Kim spent six months on the site, finding time to write his autobiography. Last month a delegation of trade union officials from the shipyard was sent at Daewoo's expense to Poland, where they are to meet Mr Lech Walesa, the Solidarity leader, and his colleagues at the Lenin shipyard in Gdansk

No doubt the two groups of workers will find their beliefs in democracy to be much the same, though clearly the state of the country's economies could not be more different.

At the same time, other trade union leaders are travelling to western Europe and the US to look at industrial relations, and the Government is to set up an education and training centre at the FKTU for union officials.

Next year's wage round may see a watershed in South Korean industry, where the princi-ple of unions is fully accepted by management, and the formation of representative unions is encouraged.

The outlook then will be bright, for South Korean workers' vitality is expected to remain undimmed so long as they are rewarded fairly for their undoubted contribution to the country's prosperity.

Seoul is no longer a low cost export base, writes John Ridding

High labour costs deterring potential foreign investors

493,899 45.880

41,493 48,329

1987

1 323

45 48

Project

207

Japan Hong Kong W. Germany

Agri/fisheries Manufacturing

Chemicals Machinery

adjusts towards greater empha-sis on domestic demand and more capital intensive production, so the incentives and opportunities for foreign investors are being transformed.

Whereas in the past foreign investors regarded South Korea as a low cost export base for cheap consumer goods the main attraction today is increasingly the domestic market and the potential for exporting higher value added

One of the principal factors in this change has been the sharp increase in production costs over the past few years. "Costs have advanced by leaps and bounds," says Mr Richard Leiber, co-chairman of the investment committee of the US chamber of commerce. "The days of cheap labour are

Not only have wages soared over the past two years as Kor-ean workers have demanded their share of the country's economic success, but working hours have also been reduced As a result, estimates Dr Jung Sun Suh of the Daewood Research Institute, unit labour costs have advanced by as much as 40 per cent over the past year.

The impact on costs has been amplified by currency movements. Although the won is unlikely to appreciate by more than 2 per cent against the US dollar this year, it remains more than 20 per cent higher than its 1987 level.

In addition, wage demands and calls for union recognition have often been accompanied by strikes. Foreign companies have suffered at least as much as domestic organisations and in a number of cases there has been a strain of anti-American-

The combination of these factors has certainly had an effect. In the first nine months of the year total new foreign investment fell from \$1.09bn to 4m, a decline of about 20 per cent. Several existing investors have also pulled out of Korea National Semiconductor and Tandy of the US, for example both found it increasingly difficult to maintain sufficient profitability from their relatively labour intensive electronics businesses. Similarly, five of the 70 companies at the Masan free export zone have withdrawn their investments so far

But as the incentives for export oriented investors recede the attractions of the domestic economy are increas-ing. The flipside of the higher wages being paid to Korean workers has been a sharp increase in domestic consumption. The Korean market, with 43m people and a per capita gross national product approaching \$5,000 provides a

approximing \$5,000 provides a valuable source of demand. In the longer term, many investors believe that Korea will be second only to Japan among the economies of the region and that it will provide a good base from which to export to other Asian econo-

From the Korean side there

Electron 212,157 electronic products 43,138 533,065 Transport equips 31 119,532 277,158 Services 65 418,902 89,767 Financing

779.345

regional and lower cost competitors but is expensive and slow to develop domestically. Where the incentives on both sides meet several substantial foreign investments have resulted. Volvo, the Swedish car manufacturer, recently signed an agreement with Ssangyong, a Korean counter-

is a need for individual compa

nies and the economy as a whole to gain access to more

advanced technology. This is

necessary to retain interna-tional market share from

Korea and the US several manufacturing and service areas, including pharmaceuticals and advertising, are now open to foreign joint ventures or 100 per cent ownership.

Foreign investment trend by country (on approval basis; \$'000)

Amount

13.845

74,040

Foreign investment trend by sector (on approval basis; \$'000)

44 62

738,174

Projects

5 17

29

383,035

22.584

39,191

566, 196

145,408 70,082

142,890 293,560

1988

Projects

But in spite of these mea-sures and the attractions of the Korean market, investors still face an array of disincentives. For Mr Michael Jackson, the in Secul, the most important has been the frequency of strikes and labour disputes. He believes that the next wage

As the incentives for export oriented investors recede so the attractions of the domestic economy are increasing. The flipside of the higher wages being paid to Korean workers has been a sharp increase in domestic consumption

part, to produce a Volvo model in South Korea and to jointly develop a new car. ICL the UK chemicals group has two investments in Korea, one of which supplies chemicals with a high technical content for use in quality textiles.

For Mr Robert Milligan.

President of ICI Korea, the operating costs are not the principal issue. "We haven't come here because of cheap labour. We are here because to be an innovative economy and will play a significant part in the region.

Because of its desire to attract high-tech investment the Korean government has retained tax exemptions for products or process places in this category. In addi-tion, new guidelines for foreign investors, issued in July, have smoothed the process of inves ment applications, guarantee-ing that a decision be taken within 60 days and eliminating requirements to export a given amount of output.

Most important, however, is the gradual liberalisation of new business areas to foreign capital. Following an agree-ment in May between South bargaining round will be critical in showing whether an organised system of industrial relations is being formed but says that "so far there are few signs that Korea is choosing

An additional consideration for foreign investors is the prospect of the loss of technology. Several Japanese electron-ics companies, for example, are reluctant to transfer technology because they regard lower potential competitors.

This is one of the reasons why many foreign companies prefer taking an equity stake

in a Korean company to licenc-ing technology. There is also a feeling that licencing agree-ments tend to offer inadequate returns on R&D expenditure and product development Equity investments, how-

ever, are faced by the problem of financing. The government's tight monetary policy means that borrowing rates approach 20 per cent and that there are strict limits on foreign currency inflows. Foreign businessmen complain that they are particularly badly affected use they do not have the

aints that in spite of official liberalisation measures, new or remaining regulations often make it difficult to take advantage of the opportunities.

Total 1962-89

Projects

1,876

59 93

Projects

80

308

113

same access to Korea's banks

enjoyed by local counterparts.

Amount

1,874,946

3,425,295 213,214

174.650

 $j \in \mathcal{F}_{2}$

Ministry of First

Amount

35,165

L406.413

396,182

1 (99.862

643,299

2.385,956

1,696,191

387,692

Ministry of Finance

Total 1962-89

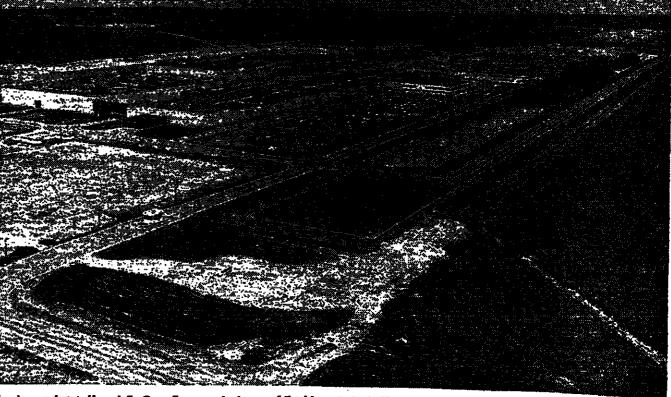
When, for example, trading companies were allowed to be set up tight capital restrictions continued to provide an obsta-cle. Furthermore, Mr Milligan argues "it is still extremely difficult to make a 100 per cent investment even in the permit-

But the Government has shown itself to be responsive to foreign concerns. At the beginning of the year, foreign com-panies, supported by US officials, campaigned against a requirement that all Korean companies satisfying certain criteria, including joint ventures and other foreign invest-ments, should float on the stock exchange. They argued that control would be diluted and that it was unfair for such requirements to be retrospec-

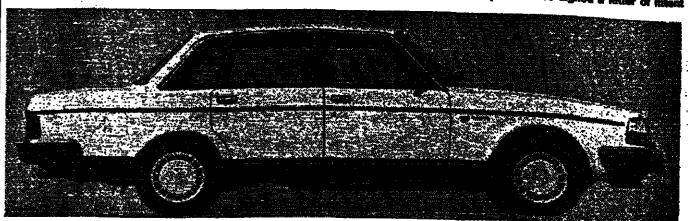
In the event the Ministry of Finance accepted that the "going public" requirement should only apply to investments made after December 1988 and after the companies had been operating for a three page period "The term is now." year period. The issue is now Jackson, "I don't think it repre-sents a serious disincentive, at the end of the three year

By then, the total level of direct foreign investment in Korea should be comfortably ahead of the current \$6.8bn. How much ahead is hard to predict, although Mr Kim Kyo Shik, from the government's foreign investment policy divi-sion, believes its will remain at about 8.5 per cent of gross national product.

More certain is his prediction that the type of investment will incres ment will increasingly be capi-tal intensive, focused on the presence of service industries



es: Hyundai's Canadian car plant, one of the biggest single Korean invest nenia abroad. Below, Volvo's 200 series which will be the basis of a new model to be made in Korea with Saangyong. The two companies have signed a letter of int



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Investors pay high price for exposure

UNTIL, the South Korean stock market is opened to foreigners in 1992, overseas investors who are hungry for exposure to Korean equities can satisfy their appetite only indirectly, through a handful of vehicles traded on the Euromarket. Such limited access, combined with growing interest in the Korean market has prompted high prices for the

The seven unit trusts have traded on premiums as high as 100 per cent, while the Korea

available paper.

The market is already capitalised at \$140bn; making it the 10th largest in the world, and is expected to exceed \$200bn by the time it is opened to foreigners

Fund and the Korea Europe Fund, two closed end vehicles, and the six convertible bond issues have generally been

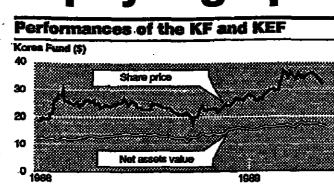
higher still.

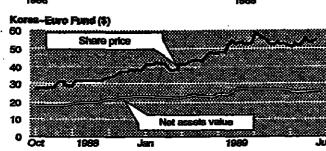
Not surprisingly, such pre-miums are discouraging to many investors. "We are not prepared to pay that sort of price to get into Korea," remarked the pension fund manager of one large UK conpany. "We will wait until the market opens before considering any investments there."
But notwithstanding the occasional correction such as

occurred following the Tiananmen Square massacre in Peking in June or the falls in international markets in October, the Korean Euro-papers have generally shown steady

"The foreigners who got in early made a lot of money," notes Mr James Williams, a director of Barings Interna-tional Investment Management, which currently manages more than \$350m of Korean investments. He estimates that "certainly in our first four or five years we made about 12 times our money in

This year has also seen strong growth. In the first eight months the combined market capitalisation of the various issues increased by 55 per cent compared with seven per cent for the market as a





Although the Euro issues like the underlying index, have fallen off since then the total value of Korean paper now traded has grown in excess of

Equally important, however, are the attractions of the underlying market to which some of the instruments will ultimately give access. Although the market has been disappointing this year, with

e index	showing a	ı decline o
nuary	levels,	analyst
lieve th	e longer te	erm outloo
		_
The ma	rket is al	ready cap
ised at	\$140bn, ma	aking it th
th large	st in the	world, an
expecte	d to excee	d \$200b n b
	nuary lieve the promist The ma ised at th large expecte	e index showing a nuary levels, ileve the longer to promising. The market is al- ised at \$140m, ma- th largest in the expected to excee- e time it is opened

The high rate at which the Korean economy generates liquidity and the government's policy of developing equity fin-

ent vehicles for the Korean stock

Unit Trusts	Price Oct 31 '89	Net asset value Oct 31 '89	Premium (%)
Korea International Trust	104	60.10	73
Korea Trust	124	72.09	72
Secui International Trust	74.5	43.22	72
Secul Trust	73.0	41.81	75
Korea Growth Trust	73.5	42.78	72
Korea Small Com Trust Korea Emerging	26.0	16.96	53
Company Trust	27.5	17.21	60
	<u> </u>		Baring Securities
Convertible Bonds	Price (%) Oct 31 '89	Net asset value (%) Oct 31 '89	Premium (%)
		2132	

200

124 125 131 203

ancing suggest a strong source of demand. Furthermore, the market is relatively stable finance for Korean companies the outlook for new issues compared with some of its remains unclear.

regional rivals, notably Taipel.
While the various instru-The Korean government is committed to a policy of finan-cial liberalisation and a sched-ule published in 1988 stated ments all enjoy substantial premiums their characteristics and performances show that restrictions on overseas marked differences even issues by Korean companies would be relaxed.

within the three categories.
The Korea fund, which is approximately three times As a result, analysts were expecting about a dozen issues this year as Korean companies larger than its European coun-terpart has relatively good liquidity through its listing in sought to take advantage of

Korea Europe Fund.

stantial increas

and the UK."

But until domestic monetary

More certain is that the

new Asian funds out of Europe

Given plans to launch additional funds and the fact that a fixed percentage will be placed

in Korean paper the upward pressure on prices will remain.

market opening continues it is

unlikely that the premiums can maintain their lofty

heights. "We expect some ero-sion," says Mr Robert Simpson

of James Capel, "perhaps to about 50 per cent by 1992."

opening of the Korean stock market to foreigners will ini-tially be on a limited basis and that the underlying index will surge as 1992 approaches, should ensure the market for Korean Euro Issues remains

But the likelihood that the

But as the countdown to

in the event, however, the government's concern about Although the high excess domestic liquidity and premiums enjoyed by the requirement that funds raised on the Euromarkets are Korean Euro-paper used for external projects has provides a cheap form resulted in only one issue so of finance for Korean far this year, albeit the country's first bond with warrant. companies the outlook There are signs of an improvement. A \$30m issue by STC, a flexible packaging maker is imminent and will be for new issues

remains unclear

New York but consequently faces US Securities and Exchange Commission regula-tions which prevent it from investing in financial stocks. When this sector performs well, its more aggressively managed London rival has shown more rapid gains. The unit trusts all have

The unit trusts all have widely varying components with the largest, the Korea International Trust being the most closely indexed. However, the best opportunity for target-ting investment lies with the convertible bonds where the premiums reflect perceptions of the underlying quality of the

company.

The markets in all of the issues remain tight with daily volume averaging only between \$5m and \$10m. It is not a country we particularly want to trade," says Mr Williams. "Even when our Korean positions adversely impact on profits we are not prepared to incentive to convert the issues.

Some of the earlier instruments are now technically due for conversion but the high premiums would immediately be lost and the proceeds cannot be used to buy other Korean shares until 1991. Although the high premiums

enjoyed by Korean Euro-paper

BARINGS

Patience a virtue in a tried and trusted place

IT IS perhaps surprising that a privately owned and family controlled British merchant banking group has been one of the most active foreign players in the internationalisation of South Korea's financial mar-

But since it first started doing business with Korea in the 1970s Barings has built up a strong position in its three areas of activity.

The merchant banking side has been one of the most widely used issuers of Korean paper, the investment management business is one of the largest holders of this paper, and Barings Securities, which makes markets in all of the Korean instruments open to European investors, is one of the most active traders.

At present Barings, like all foreign securities companies is restricted to a representative office and all business is confollowed closely by an issue by Korea's second largest construction company. A third tranche is also planned for the ducted offshore. The amount of business is also relatively limited. The past year, for example, has seen only a couple of issues on the Euromarkets.

None the less, foreign bropolicy is eased and more for-eign ventures are forthcoming from Korean investors then there is unlikely to be a sub-

kers are mushrooming in Seoul By the end of this year, about 25 will have established demand for available paper will further strengthen. According to Mr Gavin Roberts of James Capel: "The most potent reason for the rise in representative offices and all of the big names are already there. The most recent, Salo-mon Brothers, opened earlier this month. Barings itself has almost doubled its staff in premiums this year seems to have been the proliferation of Korea over the last year and now has 18 people in its repre-

entative office. "Competition has certainly become tougher," notes Mr Duncan Ross, Barings Chief Representative in Korea. "Sup-ply is not keeping up with the demand from the foreign

But for Barings as for the attraction of Korea is longer term and springs from the government's programme of finan-cial liberalisation. In particular, the foreign houses have their eyes on the opening of the Korean stock market to for-

eign investment in 1992.
"Our basic philosophy is not to make money immediately," says Mr B.Y. Cho, a director of Barings Securities. "We are investing now so as to win the maximum returns when the

Korean stock market opens to foreigners." Although much can happen

between now and then, Barings is confident that the market will have a strong attraction to overseas investors.

Once the market is opened its capitalisation could repret between 3 per cent and 4 per cent of the world total," estimates Mr Cho. "Investment managers will feel a strong



pressure to place part of their portfolios there." However, Barings, which is also active in the other East Asian markets, argues that the Seoul exchange has specific advantages over regional competitors.
Unlike Taiwan, which is biased towards small and medi-

For Barings as for the more recent arrivais, the main attraction is longer term

um-sized industry, and Hong Kong which is property ori-ented, Korea is seen as having a broad range of established industries from steel, to semiconductors and textiles.
It is also perceived as a rela-

tively stable market. Although this partly reflects the absence of foreigners, who have tended to be fairly quick to sell in Tokyo, it is also the result of government guidance through the institutions. In October 1987, Seoul was one of the few world markets not to fall.

"Korea is a very sound underlying story," says Mr James Williams, director of Barings International Investment Management. "Other emerging markets are going to come and go but this is very much a tried and trusted

On the merchant banking side of the business, opportunities are likely to arise from an increased rate of corporate issues and from the develop-ment of merger and acquisition

"This field of business is still at a youthful stage," says Mr Ross. "But I believe that Korea will follow a similar pattern to Japan, and more quickly." One reason is a desire to establish overseas plants in Europe to circumvent possible restrictions resulting from the creation of a single European

Barings believes that its relatively long involvement in Korea and its position as one of the most active foreign houses will strengthen its hand when these opportunities arise.

Not only will it have devel-oped a research base, but it will be an advantage when the Korean government starts to award licences for branch offices, currently scheduled for 1991. In particular, it hopes to gain from the fact that it was the first UK merchant banking group to be allowed to set up a presentative office in Seoul. But competition for the

rewards of liberalisations will not come only from its foreign counterparts. Domestic brokers will themselves be seeking to capitalise on the opportunities arising from the international-isation of their markets.

"The competition from domestic brokers will be much stronger than from the Japanese in the early days of their financial liberalisation," says sentative of Hoare Govett. "They have large staffs and have long seen the internation-alisation of their market as a profitable opportunity."

For the foreign securities companies immediate returns seem unlikely. As in Japan, most are likely to find it hard to cover overheads for the first

few years.
"I don't think it will be a very profitable source of business from 1992 because of the limited opening," says Mr Cho. But we are confident about the markets prospects and will

John Ridding



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including textiles and elec-

tronic assembly work, are establishing new plants in

low-wage south-east Asian countries, including Thailand and Indonesia, and in China.

Some 27 per cent of total

overseas investment is in the

region, much of it in low-capi-

talised enterprises employing a

few hundred people. Samsung

assembles video recorders in

Thailand, refrigerators in

Malaysia. Goldstar has con-

sumer appliance factories in

Koreans have already been

overseas long enough to experience serious problems. Samsung and Goldstar started their

US operations in New Jersey

and Alahama respectively by assembling television sets from

parts sent from Korea. But the high cost of local labour has

driven both companies to

switch mainstream television

assembly to low-cost Mexico.

The American factories now

concentrate on large screen

televisions and other consumer

"Our expansion has not been

totally successful," says Mr Lee of Samsung, "although it has not exactly failed." Korean

executives say clashes with

local workers have been fre-

Mr Lee says Koreans have to

for Japan."

Thailand and in Indonesia.

The chaebol go international

AFTER years of single-minded commitment to exports, South Koreans are investing in overseas production. They are seeking to build plants in low-wage Asian countries to escape the pressure of spiralling labour costs in Korea and the appreciation of the won. And they need to invest in the US and in Europe to get closer to markets and to minimise trade fric-

Also, there is increasing criticism in Korea of the dominant role of the conglomerates, or chaebol, in the economy. The top four companies - Samsung, Daewoo, Hyundai and Lucky-Goldstar – account for nearly 20 per cent of manufacturing industry. Foreign investment is a key way for these companies to grow with-out running into political trou-

Moreover, overseas expan-sion will encourage these diversified groups to specialise and so improve their international competitiveness. Samsung, for example, intends to lean increasingly towards elec-

Foreign investments are complex undertakings for groups which are newcomers to cross-border management. Like the Japanese before them, Koreans have run into clashes of culture which sometimes have undermined the benefits of investment.

Moreover, because international markets are much more competitive than 20 years ago. the Koreans have to move more quickly than the Japa-nese did when they were embarking on the first stages of their post-war international

Korean overseas investment is starting from a very small base. Until the mid-1980s, foreign exchange was so scarce in Korea that the government rarely granted permission to invest overseas. The priority was to earn foreign exchange,

But the rapid growth of the current account surplus, to \$14bn last year, has removed much of the reason for restrictions. From an accumulated total of \$476m at the end of 1985 overseas investment soared to \$1.1bn by the end of last year with a further increase of \$200m-plus expec-

ted in 1989. In the first eight months of 1989, 140 cases were approved,

As the figures suggest, most investments are quite small in terms of initial investment. But there are already some big exceptions, including the C\$400m car assembly plant opened last year in Canada by Hvundai Motor, an arm of the

Iyundai conglomerate. However, the average size of investment is expected to grow rapidly as companies, for example, increase the size of pilot plants into full-scale fac-

While the first significant overseas investments were made as long as ago as the 1970s, big companies are only now beginning to conceive full-scale international investment strategies. Mr Lee Sun Hak, a senior

official of Samsung, which has the most developed foreign investment programme, says: "First you start exporting, then you establish sales companies. then a production base and then a global marketing system. Four stages. We are in between the second and third stage at the moment."

Samsung has seven electronics factories overseas and plans nine more in the next two years. Currently, 5 per cent of production is abroad, in three years' time it will be between 25 per cent and 30 per cent.

The importance of the US market is highlighted by the fact that North America accounts for 43 per cent of accumulated external direct investment - boosted by Hyundai's Canadian motor

Europe accounts for only 8 per cent, a figure Koreans would like to see increase. Korean businessmen have neglected the European market for a long time since they judged the US easier to pene-

Mr Kim Suk Woo, a senior official at the Economic Planning Board, says that Korea needs closer economic ties with Europe to offset its dependence on the US and Japan. Corean companies are particularly keen, he says, on mergers and joint ventures with European groups since greenfield ventures may not be welcome in the crowded European market. "We complement each other. The Europeans have technology. We have production skills."

The most pressing need is to move offshore operations which have been made uncompetitive by a 100 per cent increase in costs in US dollar terms since 1986, taking account of pay increases and currency appreciation. Labour-intensive industries,

South	Korea's	leading business groups	learn about local culture,
	Sales	Activities	which is a polite way of saying that few workers in other
Samsung	\$31bn	Electronics, semiconductors, aerospace, food, retailing, shipbuilding, insurance, hotels, trading, paper	countries are prepared to work as hard as Koreans. "If you ask Koreans to work overtime all
Hyundai	\$27.8bn	Cars, shipbuilding, electronics, semicon ductors, construction, heavy machinery, financial services, retailing, trading	night to meet an order they'll do it. Whereas in the UK" One difficulty is that few
Lucky Goldstar	\$22.8bn	Electronics and semiconductors, telecom munications, chemicals, refining and petrochemicals, trading, financial services	Koreans want to work abroad for a long time since such they feel excluded from the main- stream of the company.
Daewoo	\$15.2bn	Heavy machinery, cars, textiles, aero space, electronics, telecommunications financial services, hotels	Another is that no Korean group yet has an integrated group management. The conglomerates are highly decen-
Sunkyong	\$9.3 bn	Refining and petrochemicals, textiles and polyester products, trading	tralised, so knowledge about foreign ventures is not shared
Ssangyong	\$6.3bn	Cement, construction, cars, financial ser vices, resorts	easily. Mr Suh Jung Sun, executive
lyosung	\$4.2bn	Textiles, heavy machinery, trading	director of Daewoo Capital Management, an arm of the
-laniin	\$4.1bn	Transport, air (Korean Air) sea and road.	Decade conglements of the

\$3.7bn Cars

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Bank S.A.E. Cairo, Lobi Bank of Nigeria Ltd. Makurdi, KEB Finanz (schwelz) zurich.

Hyundai Group is preparing the third leg of its extraordinary assault on the North American car market.

It has begun selling an attractive updated Excel and has also introduced a more powerful six-cylinder version of its Sonata mid-size model. It has begun production at a new C\$400m (£218m) assembly plant near Montreal.

The Hyundai Motor Company subsidiary has tried to do in five years what the more cautious Japanese have done in 20. It entered the Canadian market in 1984 with the rearwheel drive Pony sub-compact and the Stellar compact. In 1985 Hyundai sold almost 80,000 units, mostly in eastern Canada, and built up a dealer network. In that year it held number

one foreign import spot in the Canadian market, well ahead of Toyota, Nissan and Honda. But from that point on it was downhill as buyers found that the Pony could not withstand heavy Canadian usage and the vicious inroads of road salt

during winter. But Canada was the spear head for the attack on North America, and in that initial thrust Hyundai briefly claimed 21 per cent of the Canadian small car market. It spent C\$8m on advertising alone in

Next, Hyundai Motor, minority owned by Japan's Mitsubi-shi Corp, launched its second thrust the Excel sub-compact, clearly influenced by Mitsubi shi and a more rugged model with front-wheel drive. The Excel shored up Hvun-

dai in Canada, while making one of the most successful imported car introductions ever in the US. More than

AN IMPORTANT strand in the European strategy of South

Daewoo conglomerate, says: Our conclusion for the Daewoo group is that if there were ual markets. Although, at present, the no political pressures from the US and Europe it would definitely be better to produce in South Korea. The same is true

> Samsung arrived in the north-east of England in 1987 after examining more than a dozen sites in three

"I think it must increase because Europe is not going to be a free market; it is going to be a manipulated free market. If others do not come, then they cannot grow and the European market is very important to my country's growth," he said.
Mr Kwon also believes that

to make video-recorders and

the £20m investment was made on the basis of its low unit labour costs and the easy avail-

disused electronics factory.

According to Mr Paul Grosvenor, of the Northern Devel-

offered by other regions. Originally, it was anticipated that the factory would employ 200, rising to 300 by 1991, but

Goldstar, which has built a £14m manufacturing facility on a greenfield site near Jarrow,

Hyundai in Canada

Springboard for a wider assault

ally in the US in 1986 and 1987, until the novelty wore off and a slow decline set in with tougher competition from the

But Hyundai, based on the early Pony success and its confidence in future models, was determined to assembly in Canada for the whole North American market. The C\$400m project astounded the industry with its location at Bromont, near Montreal and C\$110m in Quebec and federal government aid.

Quebec had only one car assembly plant, a General Motors Canada unit, and the political conditions were favourable when Hyundai

made its announcement late in It was the personal decision

of Mr S.Y. Chung, former president of Hyundai Motor. He called in Montreal engineers to design the plant with his company. It was located in a French speaking area where a young work force could be recruited but the language difficulties have been great. The plant started commer-

cial production of the Sonata this spring, only a few months behind schedule, and Hyundai is building a C\$120m stamping plant alongside. Hyundai could not have got

that government assistance today. With the 1988 Cana-

Mr Kwon said: "The work-

force has no need of a union. I

cannot control what my employees want but they are

fairly paid and fairly treated."
In spite of the cultural differ-

ences, the companies are keen to enter the mainstream of UK

business life, seeing them-

selves as British companies which happened to be owned by South Korea rather than

South Korean companies oper-

da-US Free Trade Pact, Canada has agreed to reduce subsidies for new industrial projects to almost zero. This means con-fining support to training pro-grammes, though individual provinces can pay for infrastructure and may offer loan guarantees.

In the first 10 months of 1989 Hyundai sold 24,600 Excels and Sonatas in Canada and 160,700 (mostly Excels) in the US. The comparable figures for 1988 were 26,520 in Canada and 225,000 in the US (all Excels).

The Bromont plant will make between 10,000 and 12,000 Sonatas this year, using a singie shift, while the company brings in the higher powered version from Korea with the new more competitive Excel. The Sonatas will also go to Taiwan next year. In 1991 Bromont will begin

making a slightly different Sonata for Chrysler Corporation for delivery in the US. It will only reach the maximum 100,000 units a year by 1991 or 1992 with two shifts.

The Canadian value added is now about 25 per cent, but it will be some time before this reaches the target 50 per cent for maximum tariff advantage on US exports. By 1991, with the Japanese transplants fully in operation, North America expects to have surplus car assembly capacity of 2m units a year. More older assembly plants will have to be closed. Mr Lee Yoo-II, president of Hyundai Auto Canada Inc. insists the Bromont plant was built to penetrate the North American market which can easily absorb 100,000 Sonatas a year. "We'll market the new Sonata wherever the public demand may be, from Bromont

manager of Goldstar, says the

similarities between the South Koreans and the British out-

"There is nothing about the company which you could say

was intrinsically Korean. In

fact, if it was not for the Korean managers on the shop floor, it could be any British

weigh any differences.

North American challenge: Hyundal's car plant, Canada Martin Regan on why Samsung opted for a UK production base

Labour's pulling power

Korea's larger companies is to create manufacturing capacity where it can service a strong national market. The wider view, of each European nation as a gateway to the others, though important, is secondary to the exploitation of individ

number of South Korean companies with production capacity in Europe is small, it will increase rapidly over the next few years, according to Mr Young Kwon, the managing director of Cleveland-based Samsung UK.

countries

those countries with established markets in consumer electronics, such as the UK and West Germany, will be well placed for future investment. Samsung arrived in the north-east of England in 1987 after examining more than a dozen sites in three countries. With television manufacture concentrated in Portugal, their

microwave ovens. The UK, says Mr Kwon, offered a variety of attractions, not least that it was Europe's largest market for microwaves. Language was also a key factor

in the decision.
"We came to the UK because we came to the o'k because it is an English-speaking coun-try and that is very, very important. The country is also very influential within Europe and the market for our products is good," he said. The choice of Cleveland for

ability of a skilled workforce. A joint approach from the North-ern Development Company, the north-east's inward investment organisation, and the county council, found an inge-nious solution to Samsung's requirements by refurbishing a

opment Company, the amount of grant-aid was not the main factor in the decision, although the financial package based around regional selective assistance was superior to that

the squeeze on consumer spending has kept staff levels at around 160. Mr Kwon says further increases depend on the performance of the UK

Last year, Samsung was followed into the north-east by an area covered by the Tyne and Wear Development Corpo-

The factory, which employs 60, produces microwave ovens. Television and VCR production is concentrated in West Germany, the company's largest market. The initial entry into the UK market-place has been cautious but land adjacent to the new factory is available for expansion. Eventually, the company expects to increase its workforce to around 300.

Mr Chung Lee, the managing director of the UK operation, agrees with Mr Kwon that low unit labour costs and a skilled workforce are the north-east's main attractions but adds that area was a further consider

Both companies operate without union agreements and have so far enjoyed good indus-trial relations. The traditional boundaries between management and workforce do not apply. Instead, along Japanese lines, managers manage from the shop floor, sharing the same canteen, tollet and recreational facilities with all employees. Every employee has salaried status. Initial employee fears over

the management style of the South Koreans have largely disappeared. Indeed, Mr Kwon questions whether there is such a thing as a South Korean

"We are a very fast-growing country and so we do not yet have any clear style of management. If it is advantageous for us to take certain parts of the Japanese or western methods then we will do so," he

The potential for cultural

The choice of Cleveland was made on the basis of its low unit labour costs and the easy availability of a skilled workforce

misunderstandings is minimised by a disputes procedure which, until its final stages, is handled solely by the British managers. The South Korean management is reluctant to become involved.

Mr Kwon said: "We have had no problem with our workforce because they are appreciated by our management. We are foreigners and there is nothing we are not prepared to learn. This makes our attitudes much more flexible.

"We hope we can listen to what our workforce wants and in this respect we are in a much stronger position than many British companies who can take many things about employees for granted." In spite of this, the non-

union policy is not universally welcomed. At Samsung, sev-eral staff have openly advocated unionisation, though the management maintains that no official approach has been made. Salaries are slightly above the industry average but the lack of any real wage bargaining mechanism is not pop-

However, the prospect of union recognition does not exist. Only a handful of ner-stone of the South Korean strategy.

company. There is no attempt to force change and I think this is recognised and appreciated ating in Britain. by the workforce." Mr Ray Couch, the personnel DOWED

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employees are thought to want a union and senior managers confirm that the policy is a cor-

LOTTE WORLD

Cash rich Koreans help leisure group tap a lucrative market

THE largest foreign investment in South Korea, is not a semiconductor plant or a car factory, but, perhaps surprisingly, an amusement park. Even more surprisingly for a foreign investment, it is owned

The Lotte World, a giant complex in Seoul includes a Disneyland style fairyland and funfair for young and old, a Korean museum and traditional village, a large ice skat-ing rink and an outdoor chil-

dren's nark. It was established this year by the Lotte Group, a South Korean company whose owner Mr Shin Kyuk Ho, divides his time between Seoul and Tokyo, where he is technically resi-

The group had sales last year of \$2.5bn in South Korea. Lotte's investments, mainly in hotels, processed food and the amusement park, amount to \$1.7bn, a quarter of the total foreign investment in South Korea over the past 25 years.

"Lotte Shopping" has now become a byword in South Korea for the consumer boom which has swept the country since the Olympic Games were held in Seoul a year ago. Along with other department stores the company has seen sales shoot up, as housewives clamour to spend the money which symbolises the country's new prosperity.

Wage disputes and strikes, which have broken out as the country moves from authoritarianism to democracy, have put further cash into people's pockets leading to average monthly income per person of

'Lotte Shopping' has become a byword for the consumer boom which has recently swept the country. The Lotte group has seen sales shoot up, as housewives clamour to spend the money which symbolises South Korea's

new prosperity

\$652, with Seoul residents earn-

ing more than double.

A sense of pride in the country's achievement has also encouraged South Koreans not to worry so much about the cost of the goods they want to buy and to start enjoying their

The Lotte World, along with its adjacent hotel and shopping complex, opened partially in January this year and has a sales target of 282bn won (\$420m) for the year, of which

227bn won has already been achieved. Next year's target is 390bn won and the complex is expected to break even in three The cleverly laid out amuse-

ment park was designed by an American company, so lacks the rather grandiose style of the Lotte hotels. Visitors to the complex praised it highly, especially for its ability to cater to

all ages, including very young children.

sion fees are rather high, the complex offers Koreans, who

complex oners koreans, who have not been able to travel abroad until recently, an international touch, with a French village, an Arabian Nights section and quarters with English

and German themes, complete with security guards dressed in the relevant national police

At the Korean village, which

Although rides and admis-

ment museums, and which might be especially sensitive to a Korean with Japanese inter-But Mr Shin Kyuk Ho, owner of the group and one of the richest men in Asia, believes that Korea should be honest about its history, and the com-pany has yet to be criticised about the section.

eans who are nostalgic for tra-dition, the history of the coun-

try is laid out with artistic replicas and includes a look at

both ancient court ritual and

the lives of ordinary people.

One of the most interesting

displays covers the period of

the Japanese occupation of Korea, an era which is nor-

mally ignored in most govern-

The Lotte group has been one of the first companies to realise the potential of the South Korean market, where local incomes are now the sec-ond highest in Asia after Japan and the population is extremely youthful.

Its amusement complex has been so successful that its potential is thought to be broader. In true Korean style Lotte is now working on plans to export the idea to the US.

Maggle Ford

Valeo-Pyeong Hwa

Marriage of foreign expertise and strong domestic demand

TAEGU, an industrial sprawl on the east of the Korean Peninsula and the country's third largest city, is a world apart from the Paris base of Valeo. one of Europe's largest auto-motive components manufac-

But Valeo has a strategy of establishing design and production centres near the world's largest automobile manufacturers, and nowadays this means Korea. Hence the decision to link up with Pyeong Hwa, one of Korea's two largest clutch makers, and form a joint venture.

"That is the one simple rea son why we are here," says Mr. Arnaud Le Bec, executive vice-president of Veleo-Pyeong Hwa. "We want to supply car makers like Hyundai, Daewoo and Kia as the Korean automohile industry expands.

Valeo is not alone. Most of the world's large components groups are already in Korea sector has been by far the most attractive for foreign compa-nies. In the first nine months, direct investment into the sec-tor totalled \$143m, an increase of more than 200 per cent over

the comparable period.

More broadly, Valeo's move illustrates the developing trend of matching foreign interest in

the Korean market with a demand for technology on the part of Korean companies. If Valeo's incentive motives for setting up the joint venture

were clear so too was its choice of partner. Pyeong Hwa clutch, which was built up by Mr Sang Yeong Kim, now the president of the joint venture, supplies all of the clutch requirements of Hyundai Motor Corporation, the country's largest car

Since its expansion into

which has created a company capitalised at £30m, is on a 50/ 50 basis. According to Mr Le Rec. this reflects the contributions from both sides.

Valeo supplies technology in two principal ways. Certain equipment which is specific to the company's production process is supplied to the joint venture and then reproduced. The most striking example is a Valeo heat processing Valeo heat processing machine, alongside which stand three replicas in an early

Many components groups are already in Korea and this year the automotive sector has been by far the most attractive for foreign companies

international markets, HMC has been encouraging its sup-pliers to forge links with US and European companies to improve quality and to develop its own independence from Mitsubishi of Japan, which HMC and which has thus far supplied most of its design and technology requirements. As a result, Pyeong Hwa sought an alliance from among the ranks of the leading international

stage of development.

Design know-how, in contrast, is imparted by the five expatriate engineers and the establishment of a training

share in the valuable Hyundai contract plus additional contracts from Kia and Daewoo, two other local car makers. Combined, these are expected of the leading international components groups.

The tle-up between Valeo and Pyeong Hwa, which was completed in May 1988 and control out more than 2m clutches

link with HMC provides a strong base through which to develop in the Korean market. Although the joint venture currently produces only clutches and facings, the longer term aim is to supply other of Valeo's products such as radia-tors and headlights.

But, for Valeo, the establishment of a potentially lucrative hase in the Korean market has not been without difficulties. The negotiations took eight months to complete, partly reflecting differing opinions over whether the contract should include Pyeong Hwa's existing business. Even after signing many obstacles

"Signing the agreement does not mean you are joined," says Mr Le Bec. "The day after you sign you start negotiating

solved areas concerned Valeo's role in day-to-day management and Pyeong Hwa's different ent techniou

The language barrier and the reluctance of the existing manment team to relax control meant that Valeo was one step removed from the running of the business. "At the begin-ning we were like six auditors," notes Mr Le Bec. "The situation has improved day by day, but it is a long proces In an ideal world he believes that expatriates should spend a year with their prospective joint venture partners to gain experience of the company, its people and how it works. "In

the end our contract was a good agreement, well done. But the best lawyers on earth will never solve some of the difficulties which arise." For a company like Valeo, there is also the question of how to protect its technology and know how. Mr Le Bec

believes that the problem is solved by the terms of the joint venture agreement which stip-ulate that if either company makes clutches elsewhere in

Korea it becomes subject to a penalty in excess of \$1m.

Potential problems are also raised by the broader economic environment which this year has seen labour disputes, because higher wares and a sharply higher wages, and a slowdown in output growth.

Valeo-Pyeong Hwa was one of the few HMC suppliers that did not suffer strikes. Mr Le Bec puts this down to the existing management which retains a relatively firm control over the workforce. He sees this as an important reason for investing in Korea through a joint venture. "As foreigners, last year we could not have con-trolled the company."

None the less, part of the price for industrial peace was a sharp increase in wages which saw workers' salaries rise by 37 per cent. Since labour costs still account for only 14 per cent of the total this is not too great a concern but the coming spring wage round is seen as critical in determining whether a pattern has been established.

But for Valeo, like many of the foreign investors now com-ing into Korea, costs are not the central issue. "We are not in Korea to make cheap prod-ucts," says Mr Le Bec. "We are here because we want to be part of the industry's growth."

John Ridding

John Ridding on the financial community's ventures overseas

Still at an experimental stage

South Korean stockbrokers and life insurance companies

have been springing up throughout the world's financial centres.
The handful of the larger

securities companies all now have offices in Tokyo, New York, London and Hong Kong, a pattern which is being fol-lowed by their smaller counterparts. Life insurance companies too are busily expanding their international departments although so far only the largest, Samsung Life, has representation to match that of the securities houses.

The expansion overseas follows a relaxation in official regulations as part of the government's financial liberalisation strategy.

Last year, certain financial institutions were allowed to make limited overseas investments and will be allowed to open branch offices in 1991. By the following year there should have been a substantial relaxation on the overseas investments permitted for individuals and companies as well as for financial institutions.

For the moment the latter

ments in overseas markets. Securities companies are limited to a total of \$30m while life insurance companies and unit trust companies are limited to \$10m each.

Even within these restricted amounts Korea's institutions have displayed a cautious approach to overseas invest-ment and their total portfolios are well short of the limits. "We are still at the experimenting stage," says Mr Roh Tae Ho, manager of overseas investment at Daewoo, the

rgest securities company. None the less, the overseas investments do form a pattern. The most favoured stock mar-ket has been Tokyo, with Lon-don and New York being regarded as relatively unattrac-tive. Most houses have also put a high proportion of their funds into Korean Euro issues, partly to raise short-term profits but with the additional aim of becoming market makers in

hese instruments. In the longer term, the international business of Korean financial groups is certain to be a more substantial affair. The high domestic savings rate and favourable trade balhigh liquidity, a proportion of which will flow overseas. Even small portion of Samsung Life's massive \$10bn of assets would represent a significant increase in outward portfolio investment. In addition, the opening of Korea's own financial markets will provide the opportunity of selling Korean

ares to foreigners. For Mr Ho C Yang, manag-ing director of Dongsuh Securities, the best strategy in international expansion is to be selective. For the time being we have to find niches and concentrate on activities that we know."

In practice this is likely to mean greater involvement with Korean companies as they expand overseas and look to the Euromarkets for cheap funds. Korean Securities houses have already been active in a number of convertible bond issues, getting their names on tombstones for publicity but also to gain experience of share placings.

Other areas of interest concerning the sale of forcion con-

cerning the sale of foreign government bonds to Korean investors are the development sung Life has already set up a real estate subsidiary in the

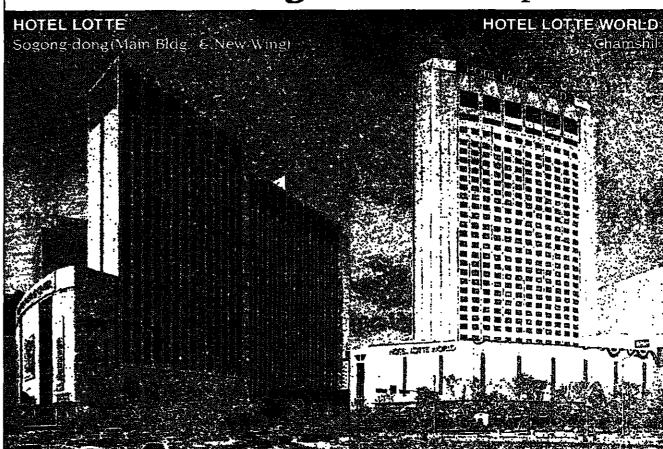
But in the development of their international business. Korean institutions will face two principal obstacles. Most immediately there is the problem of gaining expertise in the various foreign markets. This is exacerbated by the traditional insularity of Korea's financial markets and the dif-ferent dynamics of the Korean stock market. In particular, there is less emphasis on com-pany fundamentals, and like Japan, more official guidance through the large brokers.

Liberalisation will also bring the domestic institutions into competition with their foreign counterparts. In the domestic market they hold advantages relating to experience and corporate contacts. In addition. they all have large staffs. Daewoo, for example has between 40 and 50 analysts and a dozen

economists.
Overseas, however, the Korean institutions are likely to find the going much tougher. Many may feel that the sizeable investments required are too high, particularly when the tially rapid growth.



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